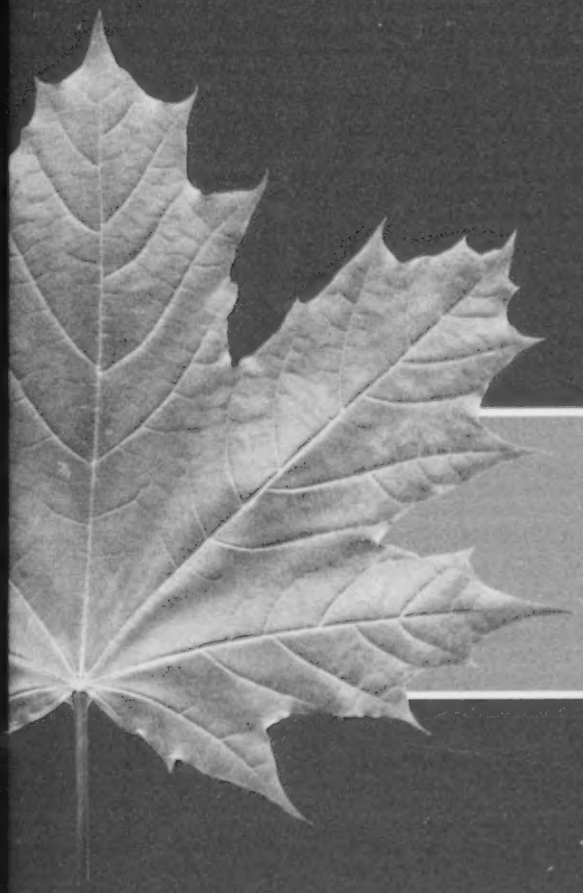
Operating budget | Capital budget | Borrowing plan



2016-17 to 2020-21

# Corporate Plan Summary

Farm Credit Canada
Advancing the business of agriculture

Canada

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# 1.0 | Executive summary

Agriculture is a modern and economically important industry. Today, the agriculture and agri-food system contributes billions of dollars to the Canadian economy every year. Producers and agribusiness operators are business owners who manage the complexities of volatile markets, the value of the Canadian dollar, consumer trends, human resource challenges and other factors.

Given these variables, producers and agribusiness operators need a trustworthy and stable financial partner. Farm Credit Canada (FCC) continues to demonstrate an unwavering commitment to the agriculture and agri-food industry.

FCC enhances rural Canada by providing specialized and personalized business and financial services and products to family farms, farming operations and small- and medium-sized businesses related to farming. FCC is dedicated to agriculture and takes a long-term view.

As a federal commercial Crown corporation, FCC must remain financially viable through all economic cycles to support customers through both good and challenging times. FCC has met or exceeded its financial targets for over two decades and forecasts to pay a dividend to the federal government of $286.2 million over the five-year period, including $90.4 million for 2015-16. Meeting or exceeding its financial targets year over year means FCC will remain financially sound and able to serve the needs of the agriculture and agri-food industry well into the future.

The corporate plan for the 2016-17 to 2020-21 planning period is an output of the strategic planning process that outlines the strategy that FCC will use to achieve its vision, mission and values. In developing the proposed plan, FCC continued its practice of balancing resources and activities required to support the planned portfolio and revenue growth. The FCC strategy has five areas of focus for the planning period:

- great customer relationships
- high-performance culture
- sustainable business success
- effective ERM
- execution excellence

Great customer relationships are the primary reason that customers choose FCC and therefore it is the central element of the strategy. Great customer relationships happen when customers know that FCC is knowledgeable, understands their operation and delivers financial solutions to help them succeed.

FCC's high-performance culture is foundational to great customer relationships. FCC employees must work together to achieve great customer relationships and having a high-performance culture makes this possible.

These first two themes support the sustainable business success theme and keep FCC viable and relevant to customers. This in turn contributes to the success of FCC and Canada's agriculture industry.

Enterprise risk management (ERM) protects the great customer relationship and FCC. Having a strong risk management emphasis has evolved and strengthened the maturity of FCC's risk practices, which in turn provides a solid foundation for moving forward to protect FCC, the industry and its customers.

Efforts in the execution excellence theme help FCC enable great customer relationships. Customer expectations of how and when they do business are changing. Empowering FCC employees to look for opportunities to better serve customers and investing in technology are key to ensuring FCC can meet customer needs. When efforts in all five themes are aligned, FCC achieves success.

By pursuing the strategy within this plan, FCC will ensure that it remains self-sustaining and dedicated to the Canadian agriculture industry through all economic cycles.

# 2.0 | Mandate

## 2.1 Corporate mandate

FCC is Canada's leading provider of financial and business services tailored to the agriculture and agri-food industry.

FCC's mandate is described in the *Farm Credit Canada Act* as follows:

> *The purpose of the corporation is to enhance rural Canada by providing specialized and personalized business and financial services and products to farming operations, including family farms, and to those businesses in rural Canada, including small- and medium-sized businesses, that are businesses related to farming. The primary focus of the activities of the corporation shall be on farming operations, including family farms.*

FCC fulfils its mandate by offering loans and services to the agriculture and agri-food industry. Other offerings include management software, learning programs and knowledge to help customers and others involved in agriculture make sound decisions. Primary production is FCC's core business and represents 85.2% of the loan portfolio. The corporation also serves agribusinesses along the value chain – from suppliers to processors.

In addition to the *Farm Credit Canada Act*, FCC is governed by or subject to the following federal legislation:

- *Access to Information Act*
- *Canadian Environmental Assessment Act, 2012*
- *Canada Human Rights Act*
- Canada Labour Code
- *Canadian Multiculturalism Act*
- CASL – Canada's anti-spam legislation
- *Conflict of Interest Act*
- *Employment Equity Act*
- *Employment Insurance Act*
- *Federal Accountability Act*
- *Financial Administration Act*
- *Official Languages Act*
- *Privacy Act*
- *Public Servants Disclosure Protection Act*

FCC complies with other federal and provincial legislation such as land titles, farm debt mediation, personal property security acts, environmental protection, bankruptcy, insurance, occupational health and safety, and securities.

## 2.2 Public policy role

FCC's public policy statement outlines the many ways the corporation fulfils its mandate.

**FCC serves all of agriculture, all the time – all sectors, all across Canada.**
The corporation provides financing to Canadian primary producers. This includes operations of all sizes and producers of all ages.

FCC provides financing to agribusiness and agri-food operations such as suppliers and processors that serve primary producers. A healthy value chain provides producers with stable purchasing and selling options.

FCC recognizes that knowledge is key to the future success of Canadian agriculture. FCC provides workshops, publications and learning forums as educational offerings to the industry and encourages knowledge-sharing internally and externally.

The corporation works with every sector across the country, primarily in rural areas.

**FCC is dedicated to advancing the business of agriculture and takes the long-term view.**
The corporation understands that agriculture is cyclical and that cycles impact even the best producers and agribusiness operators. For that reason, FCC consistently works with and

supports its customers and agriculture sectors through the highs and lows.

As a commercial Crown corporation, FCC ensures that primary producers and agribusiness operators have choices in the marketplace through all cycles.

FCC recognizes that family farms are often multi-generational. Family farms grow their businesses not only for the benefit of the current operators but also for the benefit of future generations. FCC's goal is to be the preferred lender for those family farms from one generation to the next.

The corporation is profitable and financially self-sustaining, which enables it to create innovative products and services tailored to the long-term business needs of agriculture. FCC's offerings recognize that it can take time for agriculture operations to flourish. Products like the Start Now – Pay Later Loan (see section 7.2 for a list of FCC products) take a longer-term view, allowing the customer to defer repayment until their farm reaches its productive capacity.

**FCC is visionary and operates in a sustainable manner.**
The corporation is committed to the success of young farmers and agribusiness entrepreneurs because it is good for the industry's future.[1]

FCC conducts business in a socially and environmentally sustainable manner, paying attention to the needs of customers, employees, communities, the agriculture industry and society. FCC provides environmental information and products to customers and is working to reduce its environmental footprint.

FCC gives back to the communities where its customers and employees live and work and is committed to being a socially responsible corporation.

The corporation hires and develops employees who are passionate and knowledgeable about Canadian agriculture.

## 2.3 Achieving the mandate

FCC is Canada's only provider of financial and business services tailored exclusively to the needs and opportunities of the agriculture and agri-food industry. FCC serves its customers and Canadian agriculture as a whole in a variety of ways.

**Access to capital for operations of all sizes and in all economic cycles**
Access to capital allows producers and agribusinesses to adopt innovative practices and business models that enable them to expand, lower production costs, develop new products and compete in global markets.

As a Crown corporation, FCC fills the financing gap that exists for small- to medium-sized producers in the marketplace. FCC's competitive intelligence survey data indicates that loans of less than $1 million encounter competition only 24% of the time. In contrast, loans greater than $1 million encounter competition approximately 57% of the time. Small- and medium-sized producers are essential to the economic prosperity of rural Canada, but with loans of less than $1 million, they are not considered prime customers by many financial institutions. FCC understands that successful operations exist in all sizes and is a key partner to these smaller producers.

The agriculture industry is often affected by volatility in commodity prices, adverse weather conditions, livestock and crop diseases, and trade implications. FCC takes a long-term view and remains committed to customers and the industry in difficult times by providing steady access to capital. FCC's commitment to the agriculture sector was most evident in the financial crisis of 2009. As many financial institutions focused priorities away from

[1] FCC defines young farmers as those under 40 years of age.

agriculture, strong demand for credit from FCC resulted in a 2.7% increase in FCC's farm debt market share. In addition to ensuring stable access to credit for agriculture, FCC's long-term view of agriculture ensures consistent access to credit within individual sectors of the agriculture industry. In 2003, when trading partners closed their borders to Canadian beef exports, FCC experienced an increase in demand for credit within the beef sector. While other market players adjusted their strategies, FCC's long-term view meant that it remained active in the marketplace. As a result of the increased demand for credit, FCC's beef portfolio increased twice the average pace prior to 2003.

FCC also invests in venture capital funds dedicated to agriculture. These funds are managed by Avrio Capital. Avrio is able to attract other investors to its funds as well as to individual investment opportunities. These funds provide financing in the form of subordinated debt as well as mezzanine and equity instruments. FCC's approach to providing venture capital increases the capital and expertise available to growing, innovative firms in the agriculture industry.

**Products and services tailored to the needs of the industry**

As Canada's only financial institution focused exclusively on Canadian agriculture, FCC ensures Canadian producers and agri-business owners have access to capital and a wide-range of financial and business products and services. These include long-term mortgages, short-term credit, inventory financing (helps dealers to finance inventory held for resale to producers), leasing and venture capital.

Beyond lending, FCC is a supplier of ag-focused business insights and knowledge. FCC offers management workshops, learning events, multimedia tools, publications and management software to support customers and others involved in Canadian agriculture succeed in an ever-changing and increasingly complex business environment.

**Supporting the next generation of Canadian producers and agri-business owners**

FCC understands the importance of young farmers in the industry. FCC has developed a number of programs and services specifically for the next generation. Products and services, such as the FCC Transition Loan and Young Farmer Loan help intergenerational transfers and assist new farmers entering the industry. FCC also supports and invests in young farmers through its FCC On Campus program. Young farmers are encouraged to participate in live events, including FCC Forums, and Ag Outlook and Ag Knowledge Exchange events, and to access online multimedia on FCC.ca, with topics that include managing farm finances, human resources and succession planning.

**Improving perceptions of Canadian agriculture by engaging the industry**

Initiated by FCC, Ag More Than Ever (AMTE) is an industry cause designed to improve perceptions and create positive dialogue about Canadian agriculture. This is done through sharing of resources, information and facts to help individuals and organizations speak up and speak positively for Canadian agriculture.

By improving perceptions of Canadian agriculture, the industry is better positioned to attract the talent, investment and consumer confidence needed to grow and prosper. Supporting the long-term viability of the industry by helping it improve public perceptions is good for Canadian agriculture, and for FCC's long-term viability. The AMTE cause has also allowed FCC to strengthen its relationship with essential industry stakeholders (customers, industry associations, business partners, influencers, and more), many of whom are represented in AMTE's more than 400 official partners.

**Remaining profitable and self-sustaining**

FCC is profitable and self-sustaining. FCC understands the importance of remaining financially viable through all economic cycles to support customers through good and challenging times. FCC carefully balances the resources

required to provide business and financial services to the agriculture industry, while continuing to control costs and operate efficiently to sustain its excellent financial performance and ability to serve Canadian agriculture in the future.

**Marketplace competition and collaboration**
Healthy marketplace competition and a choice of financing are necessary for Canadian farmers and agribusinesses to be successful through all economic cycles.

FCC partners with credit unions to share information, explore opportunities for collaboration and address market and policy issues of mutual interest. FCC and credit unions have established a liaison committee to identify ways they can better work together. FCC continues to identify partnership opportunities through activities such as loan participation agreements, the provision of complementary services to producers and the development of mechanisms to facilitate co-operation at the local level. FCC learning events are offered free to producers, agribusiness and agri-food entrepreneurs, customers of credit unions and banks and anyone with an interest in Canadian agriculture.

FCC and Canadian banks work together as financing partners for farms and agribusinesses. The chartered banks often lead financing syndicates in which FCC participates. FCC provides input to both the syndicate and the customer based on its agriculture industry expertise. FCC has also signed memorandums of understandings with financial institutions to explore ways to partner financially.

Additionally, FCC works with Agriculture and Agri-Food Canada (AAFC), Export Development Canada (EDC), Business Development Bank of Canada (BDC) and other government agencies to explore ways to create opportunities for Canadian producers and agri-business operators, and to advance Canadian agriculture. FCC collaborates with EDC and BDC to support access to international markets for Canadian agribusiness. To improve access to international financing and risk management tools, FCC and EDC draw on each other's expertise, knowledge, processes and products for customers who require export and global investment solutions. FCC and BDC exchange information on a variety of topics such as existing and potential joint deals and referrals for business services.

FCC employees and their counterparts at AAFC exchange information on a range of topics important to the agriculture industry, for example, on economic outlooks or current challenges and opportunities within the sector.

## Government directives

**Employee pensions and compensation**
FCC has taken steps to align its employee pension plan with the federal directive received in 2014. The first objective to raise the normal age of retirement to 65 years for new hires starting January 1, 2015 does not apply to FCC as the DB plan has been closed to new members since January 1, 2009. The second objective, is to phase in a 50:50 cost-sharing ratio for employee and employer pension contributions for members in all of its plans by December 31, 2017.

The Board and FCC are committed to offering employees compensation, benefits and pension that is fair, competitive and sustainable over the long term. Attracting and retaining talent is critical to the success of every business. FCC reviews total cash compensation annually and presents the results to the Human Resources Board Committee for approval. FCC's compensation team compares the corporation to a consistent group of public and private organizations comparable in size, geography, industry and sector. Total cash compensation includes base pay and pay-at-risk. FCC does not offer long-term incentives.

**Travel and hospitality**
FCC received the government's directive on travel and hospitality by Order in Council P.C. 2015-1104 dated July 16, 2015. Progress continues on the directive, and FCC will be fully compliant as of March 31, 2016.
FCC continues to ensure that travel, hospitality, conferences and event expenditures are managed with prudence and probity and represent the most economic and efficient use of funds given the nature of the activity in relation to the achievement of its core mandate.

## Other corporate commitments

**Corporate office renovations**
In early 2013, FCC initiated a plan to consolidate its corporate office employees in two interconnected towers rather than three separate buildings. FCC's landlord has built a new tower adjacent to FCC's existing corporate office and FCC is sharing space in the new tower with other tenants. The 2013 business case estimating the multi-year project costs at $20.5 million is on budget. This estimate includes both capital and non-capital expenditures. The 2016-17 Plan includes $6.0 million of capital costs related to the corporate consolidation initiative, $4.2 million for leasehold improvements and $1.8 million for furniture and equipment.

**Risk management**
FCC continues a disciplined approach to risk management and closely monitors loan and portfolio quality. In response to a review by the Office of the Superintendent of Financial Institutions (OSFI) as well as evolving risk management and operational practices in the financial services sector, FCC launched a three-year program to enhance select risk management practices through six major initiatives.

As risk management practices evolve, FCC is committed to continuously improving its enterprise risk management approach in a manner consistent with the size, complexity and unique mandate of the corporation. FCC's financial position, disciplined and evolving focus on risk management and commitment to efficient operations will support the short- and long-term delivery of its mandate and Canadian agriculture.

**FCC's people strategy**
Great leadership and a healthy culture are the foundation of FCC's people strategy. The corporation is implementing a three-year strategy (2015-17) focused on deepening its culture and supporting leaders at every level. As part of the strategy, FCC is piloting a new introductory program for leaders. The New Manager Essentials program outlines clear expectations for leaders and helps them build the right leadership mindset and skill set before moving on to more intensive leadership development.

In addition, FCC is rolling out a more structured succession management process to build a pipeline of future leadership talent. This begins with workforce planning – analyzing the talent that FCC will need in the future to meet its business needs and looking for gaps that may need to be filled. This collaborative process enables FCC to identify leaders with the potential to advance into more senior roles and to create, implement and track development plans to help them grow.

FCC is also focused on deepening and sustaining its high-performance culture. All employees are completing a corporate-wide learning program called Culture Fundamentals. Going forward, FCC will embed this program into the onboarding process for new employees so that everyone who joins FCC is equipped to fully live the corporation's 10 cultural practices.

# 3.0 | Corporate profile

FCC reports to Parliament through the Minister of Agriculture and Agri-Food. FCC provides financing and other services to more than 100,000 customers[2]. Operating from more than 100 offices located primarily in rural communities, its more than 1,700 employees are passionate about the business of agriculture.

FCC's roots date back to 1929, when the Canadian Farm Loan Board (CFLB) was established to provide long-term mortgage credit to farmers. In 1959, the *Farm Credit Act* established FCC as an agent Crown corporation named in Part 1 of Schedule III of the *Financial Administration Act*, making FCC the successor to the CFLB.

In 1993, the *Farm Credit Corporation Act* was proclaimed into law, expanding FCC's mandate and broadening its lending powers. Under the new mandate, FCC could provide financial services to farming operations, including individuals, farming corporations and farm syndicates, under the authority of one act.

In 2001, the *Farm Credit Canada Act* received royal assent, allowing FCC to offer an even broader range of services to producers, agri-food operations and agribusinesses.

## 3.1 FCC's vision

The following vision keeps employees focused on the future state:

*The full agriculture and agri-food value chain believes FCC is advancing the business of agriculture. We are the place to obtain financial products, services and knowledge tailored to producers and agribusiness operators. Our customers are advocates of FCC and can't imagine doing business without us. We are a socially and environmentally responsible corporation. FCC is an employer of choice everywhere we operate. We make it easy for customers and employees to do business. We are financially strong and stable, and invest significantly in the agriculture and agri-food industry.*

## 3.2 FCC value proposition

The FCC value proposition outlines what customers and prospects can expect from a relationship with FCC. It is available on FCC's website under About FCC, Corporate Profile, and Vision, Mission and Value Proposition.

## 3.3 Corporate citizenship

### Corporate values

FCC is committed to advancing the business of agriculture. It does this by setting its sights high, working to benefit its customers and helping its employees achieve their full potential. FCC's corporate values represent its core beliefs. The corporate values are available on FCC's website under About FCC, Corporate Profile, and Values.

### Corporate social responsibility

FCC takes corporate social responsibility (CSR) seriously. It is part of FCC's values and it guides how FCC operates. In 2014-15, FCC released its fifth annual CSR report, which is available on FCC's website under About FCC, Corporate Social Responsibility.

FCC strives to be a responsible corporate citizen in all areas of its operations.

Sound governance and transparency are principles that guide FCC's CSR practices. The corporation acts with integrity and is

[2] FCC customers include all customers with an active loan balance who are primary borrowers, co-borrowers or guarantors for personal and corporate loans, including primary production, agribusiness and agri-food, and alliances.

accountable to stakeholders in accordance with all laws and with high ethical standards.

FCC believes that being a good corporate citizen is the right thing to do and makes good business sense. FCC's CSR activities support its business strategy and help position it for long-term success.

FCC's CSR framework is comprised of five areas:

**Agriculture and food**
FCC supports the development of a sustainable, competitive and innovative Canadian agriculture industry. FCC does this by providing knowledge and education, and by supporting initiatives and forming partnerships that advance the business of agriculture.

**Community**
FCC fosters strong and vibrant communities where its customers and employees live and work, with a focus on rural Canada.

**Customers**
FCC focuses on primary producers, as well as suppliers and processors along the agricultural value chain. The corporation provides customers with flexible and competitively priced financing, insurance, software, learning programs and other business services.

**Employees**
FCC fosters a culture of accountability, partnership and diversity – and delivers an exceptional employee experience.

**Environment**
FCC improves its environmental performance and supports the industry with tools and knowledge to do the same.

### Cultural practices

In addition to its corporate values, FCC's cultural practices explicitly outline the behaviours that employees and Board members are expected to demonstrate with colleagues, customers, partners, suppliers and stakeholders. The cultural practices are available on FCC's website under About FCC, Corporate Profile, and Culture Practices.

## 3.4 Corporate governance

### Board of Directors

The FCC Board of Directors represents the breadth of Canadian agriculture. Its expertise contributes significantly to the corporation's vision and strategic development. The Board ensures that FCC remains focused on its vision, mission and values, and fulfilling its public policy role.

Board members are appointed by the Governor-in-Council upon the recommendation of the Minister of Agriculture and Agri-Food. Except for the President and CEO, Board members are independent of management. They bring a combination of agriculture, business and financial experience to the task of governing a Crown corporation that serves an increasingly complex industry.

The Board is currently composed of 12 members, including the President and CEO and the Chair. The full biographies of Board members are available on FCC's website under About FCC, Corporate Profile, and Board of Directors.

The Board and committees typically meet five times each year. Four of these meetings are regular business meetings held at FCC's corporate office in Regina. The remaining meeting is the Board's strategic planning meeting. This meeting is held in conjunction with the corporation's annual public meeting, which is held in a different location each year to give the Board an opportunity to meet with employees, customers and stakeholders from different parts of the country, providing them with a better appreciation of the issues facing agriculture across Canada.

The Board is responsible for the overall governance of the corporation. It ensures that FCC business activities are in the best interests of the corporation and the Government of

Canada, as required by the *Farm Credit Canada Act* and the *Financial Administration Act*. Board members exercise a stewardship role, participate in the strategic planning process and approve the corporation's strategic direction and corporate plan. The Board also exercises its responsibility to ensure that risks associated with FCC's business have been identified. The Board ensures that the appropriate authorities and controls are in place, risk is properly managed and the achievement of goals and objectives aren't in jeopardy.

The President and CEO is responsible for the corporation's day-to-day operations. The roles and responsibilities of the Chair, Board members, the President and CEO and all Board committees are set out in written profiles and charters that are available on request. These documents articulate the Board's responsibility in six major areas:

- corporate governance
- financial reporting and public disclosure
- government relations and CSR
- integrity – legal and ethical conduct
- leadership development
- strategic planning and risk management

The Board has four sub-committees: Audit, Corporate Governance, Human Resources and Risk.

**Audit Committee** members are independent of management. The committee is financially literate and is led by the chair who is considered a financial expert.

The Audit Committee oversees the integrity, accuracy and timeliness of FCC's financial reporting. The Committee also oversees FCC's internal audit function to ensure compliance with laws, regulations and ethical conduct. This includes ensuring an ongoing working relationship between FCC and the Office of the Auditor General of Canada.

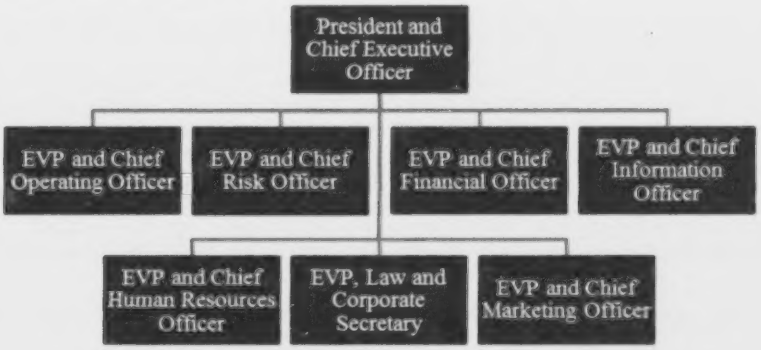
The **Corporate Governance Committee** reviews and makes recommendations to the Board with respect to sound governance practices. It oversees FCC's strategic planning process and CSR program. It also acts as the Board's nominating committee.

The Corporate Governance Committee regularly reviews the number, structure and mandate of Board committees, and is responsible for evaluating the performance of Board members, committees and the Board as a whole. The committee also oversees FCC's policies on ethics, conflicts of interest and codes of conduct for employees and Board members.

The **Human Resources Committee** reviews the corporation's compensation structure, pension plans, succession plan, corporate learning programs for employees and executive perquisites program. The committee also provides support to the President and CEO's selection, goal setting and performance reviews.

**Risk Committee** members are independent of management. The Risk Committee has a broad mandate to assist the Board in fulfilling its oversight responsibilities for the identification and management of risk. The Risk Committee oversees risk management on an enterprise-wide basis and reviews and recommends to the Board for approval the Corporation's risk appetite and tolerances against which the business performance of the Corporation will be measured, monitored and controlled. The Risk Committee is also responsible for reviewing and approving the Corporation's risk management policies, advising on the risk impact of strategic issues, new products and services, and overseeing the Corporation's performance against the defined risk appetite.

## Enterprise Management Team (EMT)


President and Chief Executive Officer
EVP and Chief Operating Officer
EVP and Chief Risk Officer
EVP and Chief Financial Officer
EVP and Chief Information Officer
EVP and Chief Human Resources Officer
EVP, Law and Corporate Secretary
EVP and Chief Marketing Officer

EMT consists of the President and CEO and Executive Vice-Presidents. Bound by the code of conduct and ethics, FCC executive and senior management teams adhere to the highest ethical standards of business, professional and personal conduct. All executives, with the exception of the President and CEO, are paid within the salary ranges and compensation policies approved by the Board. The Governor-in-Council establishes the President and CEO's compensation.

EMT is responsible for business results and corporate decision-making, including the strategic vision, allocation of enterprise resources and resolution of major strategic issues. Full biographies are available on FCC's website under About FCC, Corporate Profile, and Executive Management Team.

## Senior Leadership Team (SLT)

SLT consists of the President and CEO, Executive Vice-Presidents and Vice-Presidents. This team provides input on setting corporate priorities to achieve strategic objectives consistent with FCC's mandate and approved direction.

## Governance framework

In addition to the Board, EMT and SLT, FCC has established a governance framework, including the following committees, to guide corporate decision-making.

The **Asset Liability Committee** (ALCO) directs and executes the corporation's business and financial performance relative to the approved strategy and risk appetite framework. This includes loan pricing direction, portfolio diversification and liquidity investment, integration with corporate strategies and financial planning, and achievement of portfolio return targets.

The **Credit Committee** assesses the credit risk on loan applications from larger customers to ensure that loan proposals fall within desired risk tolerances and credits are properly structured and have appropriate conditions. They also ensure that other factors such as customer reputation risk and loan pricing relative to risks have been effectively considered.

The **Credit Policy Committee** oversees the development of lending policies to ensure that the credit risk management policies reflect FCC's credit risk tolerance and industry best practices, and compliance with federal, provincial and regional laws and regulations.

The **Enterprise Risk Management Committee** advises the Chief Risk Officer (CRO), oversees enterprise risk management governance and risk management practices, and promotes a risk culture at FCC in coordination with EMT. The committee oversees the management of corporate risks, which includes providing input on the corporate risk appetite and tolerances, and risk policies and practices. The committee provides recommendations and information to the CRO, the Board's Risk Committee and the Board.

The **Horizon Steering Committee** provides strategic direction to EMT on compensation and performance management processes. The committee also evaluates all jobs in relation to FCC's classification system.

The **Pension Committee** provides advice to the Board's Human Resources Committee to ensure the effective operation of the pension program. It ensures that the pension plan and pension fund are funded and administered in accordance with the *Pension Benefits Standards Act* and *Income Tax Act*, and fulfils FCC's role as plan administrator by monitoring and reviewing fund activities. The committee also promotes awareness and understanding of the retirement program.

The **Pricing Committee** provides advice to ALCO on all issues related to the pricing of loans. It monitors and makes modest pricing adjustments as per FCC's margin targets. It regularly reports to ALCO on pricing performance and issues, and makes recommendations to ALCO for the approval of material pricing adjustments.

The **Strategy Execution Team** (SET) approves corporate projects that enable the execution of the business strategy. There are five portfolio committees reporting to SET to help prioritize corporate actions: the Enterprise Services Portfolio Committee, the Lending Services Portfolio Committee, the Stakeholder Management Portfolio Committee, the Risk Services Portfolio Committee and the Information and Technology Portfolio Committee.

The **Venture Capital Investment Committee** approves capital commitments to venture capital fund managers and monitors the performance of FCC's venture capital portfolio.

## 3.5 FCC loan portfolio

### Portfolio by sector

FCC lends to all agriculture sectors. This diversifies FCC's lending portfolio and reduces sector-specific risks.

### Portfolio by geographic area

By lending to all areas of agriculture across Canada, FCC is able to spread risk geographically while promoting agriculture as a strong and vibrant industry.

*Excludes deferred loan fees.

## 3.6 Financial services industry

The agriculture market is served by chartered banks, credit unions, provincial lending agencies, equipment manufacturer financing programs, crop input financing programs and independent financing institutions. Nationally, the main lenders are FCC, the chartered banks and credit unions.

According to the Office of the Superintendent of Financial Institutions, Canada currently has:

- 29 domestic banks (including six major chartered banks)
- 52 foreign bank branches and subsidiaries
- 44 trust companies
- 73 life insurance companies
- 313 credit unions and caisses populaires outside of Quebec

Provincial government Crown corporations or agencies that serve agriculture include:

- ATB Financial
- Agriculture Financial Services Corporation (AFSC)
- Finance P.E.I
- La Financière agricole du Québec (FADQ)
- Manitoba Agricultural Services Corporation (MASC)
- New Brunswick Agricultural Development Board
- Nova Scotia Farm Loan Board (NSFLB)

### Market share

According to Statistics Canada, farm debt outstanding increased by 6% to $84.42 billion in 2014. Although FCC's market share for mortgage debt decreased by 0.17%, the share of non-mortgage debt increased by 0.11%, for an overall decrease of 0.4 percentage points to 28.3%.

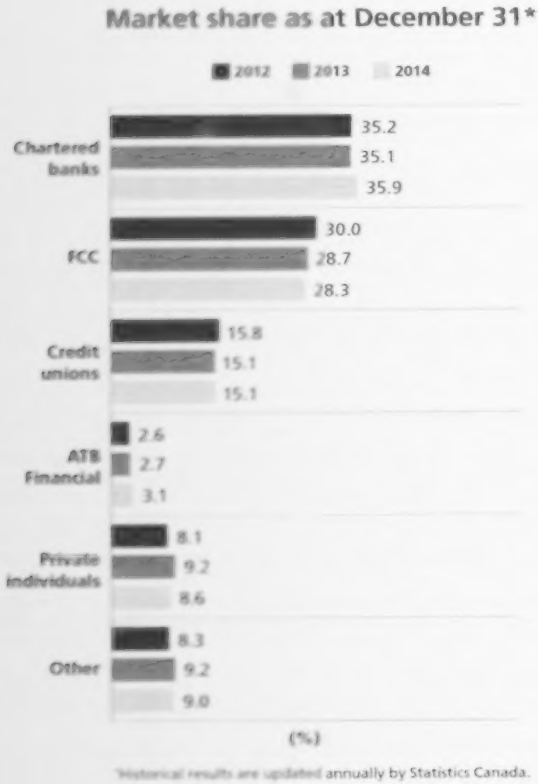
FCC's portion of Canada's outstanding farm debt at $23.85 billion remained second only to the chartered banks at $30.32 billion.

Despite this being the second year in a row FCC has seen a decrease in market share, the corporation still grew its lending portfolio by over $1 billion in 2014, a slight increase from the previous year.

The chartered banks had the largest percentage increase in market share in 2014. Their market share increased 0.75% to 35.9%, showing increases in share of both mortgages and non-mortgaged debt.

The credit union market share remained fairly consistent, showing only 0.02% increase to 15.1% market share in 2014.

Provincial government agencies have also stayed fairly consistent, increasing market share in 2014 by only 0.07%. ATB Financial increased its market share by 0.38% in 2014 to 3.1%.




*Historical results are updated annually by Statistics Canada.

# 4.0 | Agriculture and finance industries trends and developments

FCC regularly monitors and analyzes market forces and global agriculture and finance trends and developments.

Analyzing these trends and developments helps FCC determine which strategies will best position it for success in the future and are inputs for the 2016-17 to 2020-21 Corporate Plan strategies. Executing these strategies will ensure FCC remains financially stable, strong and able to serve the agriculture industry into the future.

## World economy

The world economy continues to grow, although at a slower pace than it was prior to the financial crisis in 2009. Increased uncertainty has resulted in weaker commodity prices and increasing volatility in the financial markets. The Bank of Canada predicts broad-based improvement in the growth rates for the world economy in 2016 and 2017 as benefits of lower commodity prices funnel through the world economy. The world GDP is expected to increase 3.6% in 2016 and 3.7% in 2017 compared to 3.1% in 2015.[3] A strengthening world economy should remain supportive of the growth in demand for food.

The Bank of Canada also predicts that developed economies will gain strength. The Euro area is predicted to grow faster in both 2016 and 2017, although the GDP growth rate will remain below 2%. Canada stands to benefit from a stronger Euro area, particularly once the Comprehensive Economic Trade Agreement (CETA) is ratified and implemented.

The Japanese economy is also expected to improve as the effects of shifts and reforms in monetary, fiscal and trade policies continue to provide support to the economy. Gaining further access to the Japanese market through the Trans-Pacific Partnership (TPP) would benefit Canadian exporters of red meat, grains, oilseeds and food products.

In China, economic growth is expected to continue to slow. The resulting uncertainty in the financial and housing markets are expected to weigh on the economy, slowing overall growth. The economy continues to transition from an investment-led growth model toward consumption. As the economy depends more heavily on consumer spending, the demand for agricultural products should rise as the demand for high-value foods increases. China is a major destination for Canadian agriculture and agri-food exports, second only to the United States after surpassing Japan in 2012.[4]

After a slow start to 2015, economic growth in the United States has picked up on higher household spending. The Bank of Canada expects real U.S. GDP to increase by 2.8% in 2016 and 2.6% in 2017. Despite significant improvement in economic growth, the U.S. economy still faces a few headwinds in the labour market as growth in wages is muted.

Inflation remains below the target of the central bank. The Federal Reserve continues to keep monetary stimulus in place. A majority of the committee overseeing U.S. monetary policy believes the appropriate timing for the first increase in the overnight rate is the end of 2015, yet further pressures to raise interest rates are expected to be muted. This accommodating monetary policy should support growth in the U.S. economy.

A strengthening U.S. economy will benefit Canadian economic growth. The Canadian

[3] Bank of Canada, Monetary Policy Report (July 2015)
[4] Industry Canada website, Trade Data Online tool, NAICS codes 111, 112, 311, 312.https://www.ic.gc.ca/eic/site/tdo-dcd.nsf/eng/home (accessed 23 June 2014)

economy is expected to grow at a slower rate than its American counterpart at 2.3 and 2.6% in 2016 and 2017 respectively.[5] Slower economic growth in Canada relative to the United States will also support a Canadian/U.S. dollar below its five-year average. The lower dollar will help to grow exports and absorb some of the impacts of lower commodity prices, which in turn should stimulate business investment in manufacturing. Unemployment remains high in some regions, and high consumer debt levels limit potential growth in spending.

Weak world demand for commodities combined with an excess supply of oil led to a significant fall in oil prices. This resulted in lower business investment in the energy sector. In response, the Bank of Canada cut interest rates by 0.25 percentage points in January 2015, followed by another cut in July of the same year. Interest rates are expected to remain low in Canada through 2015 and 2016, with most observers predicting that the Bank of Canada's key interest rate will increase slightly sometime in the second half of 2016. Over the next five years, the overall level of interest rates is expected to increase slowly, although it will remain low by historical standards.

While current interest rates remain low, increases in interest rates will have an outsized impact compared to the past on a percentage basis. Given the current low rate environment, the future increase in interest rates does not have to be large to have a sizable impact on interest payments. An increase of 200 basis points would almost always increase debt servicing expenses by more than 50%. The initial interest rate is important to understand the burden of higher interest rates. Rising interest rates in tandem with changing agricultural fundamentals would affect both asset values and the potential market for FCC.

A sluggish Canadian outlook combined with a strong expansion in the United States has resulted in a lower Canadian dollar relative to U.S. currency. Given Canada's leading status as an agricultural exporting country, the softness in the Canadian dollar should benefit the agriculture industry overall, as well as food manufacturers.

A lower price for oil driven by the expansion of U.S. oil production capacity has further reduced the value of the Canadian dollar. Given that lower oil prices seem to be mostly driven by larger oil supplies, the agriculture sector could benefit from the situation if it persists.

### Industry overview

FCC lends to all sectors in agriculture, which are influenced by a variety of factors such as world population and economic growth, food preferences of domestic consumers, commodity prices, exchange rates and interest rates.

Demographics throughout the world are changing. In 2012, the global population reached seven billion. The United Nations projects that it will surpass nine billion by 2050. Population growth in developing countries is expected to far exceed that of developed countries. The population is growing significantly in developing countries and aging in Western nations. As incomes in developing countries rise, it is expected that their diets will shift toward more meat and dairy products. In developed nations, scrutiny and focus are being placed on food production, including nutrition, land and water use, environmental sustainability and animal welfare. Consumer attention is also increasingly directed toward nutritional concerns and local food production systems.

While feeding a growing population with the planet's limited resources is a challenge, it also creates many opportunities for Canadian agriculture and agri-food industries. Emerging opportunities include but are not limited to those in bio-based products, health foods and ethnic markets.

[5] Bank of Canada, Monetary Policy Report (July 2015)

Several factors will affect Canadian agriculture and FCC over the next five years. A continued slow economic expansion globally will keep interest rates below their pre-recession levels in Canada and other developed countries. This will help Canadian agricultural producers service their farm debt, which reached a record $84 billion in 2014. A strengthening U.S. economy and lower Canadian dollar will help Canadian food processors expand their production and improve their competitiveness in the marketplace. The grains and oilseeds sector will face tighter margins than the average of the past five years. In the livestock sector margins are also expect to ease. With the rebuilding of U.S. cattle and hog numbers, prices are expected to soften.

### Agriculture outlook

Private and public investments represent a large share of China's GDP compared to western countries. The Chinese economy will mature and consumption expenditures will gain a larger share of GDP. Combined with a strengthening U.S. economy, these developments should be supportive of a strong agricultural economy.

Recent strong profitability in the grains and oilseed sector has provided incentive to producers around the world to increase production. Conversely, several years of low returns in livestock production had the effect of reducing the size of the cattle and hog herds in North America. These drivers and other factors will impact the accumulation of debt in the agricultural sector, the value of agricultural land, and overall market opportunities for FCC.

Overall demand for agricultural products is expected to continue to climb. The U.S. Department of Agriculture predicts world production of agriculture products will outpace population growth, allowing for per-capita consumption to increase for most products. This will result in prices of most agriculture products being lower than their respective five-year average. This could lead to marginal agricultural land being taken out of production in many countries over time.

The importance of China in global agricultural markets is expected to increase. Canada should benefit from stronger Chinese imports of beef, pork, corn, wheat, canola and soybeans. By 2024, China is expected to account for 71% of world soybean imports, up from 65% currently. Imports of beef are expected to increase by 71% while imports of pork are expected to increase by 41% by 2024.[6] Even under a slowing economic growth environment, China remains a major growth area for agriculture.

The grains and oilseed sector experienced a period of increasing prices from 2008-09 to 2012-13. Part of this was due to below average corn yields in the United States for the 2011-12 and 2012-13 crop years that cut world stocks. This had the effect of providing an incentive for producers around the world to increase production, and they responded. The world harvested area of corn increased nearly 15% from the 2008-09 to 2013-14 crop year, but this has tapered off in response to weakening prices.[7] Assuming normal growing conditions, grain and oilseed prices will likely be lower for the period 2016 to 2020 than the previous five years.[8] This holds true across a broad spectrum of commodities, including corn, soybeans, wheat, canola and lentils. Reduced prices will lead to tighter margins for grains and oilseed operations across Canada. Difficult growing conditions in Alberta and western Saskatchewan for the 2015 crops are going to further pressure producers' profitability.

Lower grains and oilseed profitability will slow the upward pressures on Canadian farmland values, but low interest rates will soften the

[6] United States Department of Agriculture, USDA Agricultural Projections to 2024, February 2015
[7] United States Department of Agriculture, Foreign Agricultural Service, Production Supply and Distribution Online, http://apps.fas.usda.gov/psdonline/psdQuery.aspx (Accessed Online: 25 June 2014)
[8] Agriculture and Agri-Food Canada, Medium Term Outlook for Canadian Agriculture, 2014

impacts as it will give time for producers to adjust their business plans to lower crop receipts, avoiding a large decline in farmland values. Interest rates will eventually rise and the Bank of Canada may increase its rate in 2016. This sequence of events (tighter margins in the short term and higher interest rates in the long term) is likely to lead to a much softer farmland market over the next five years. The combination of a weaker grain and oilseed sector and softer farmland market may also lower the interest of non-farmer investment corporations for farmland. Lower profitability in the crop sector has led to reduce farm equipment.

Margins in the cattle and hog sectors over the past two years have been significantly better than their five-year average due to strong consumer demand and lower livestock inventories. Strong consumer demand and increased export opportunities, especially to China, will help to support world prices for cattle and hogs. Domestically, higher feed costs due to the drought in Alberta and Saskatchewan will reduce margins and may result in a slight decline in the cattle herd.

The outlook of the hog sector is weaker than the 2014-15 period as the positive price impact of the porcine epidemic diarrhea disease in the United States has dissipated. U.S. producers have increased their hog herds, resulting in lower North American prices. Yet, profit margins are expected to remain positive over the next five years. Large world supplies of corn and feed grains will help to support affordable feed prices over the next five years. Even with sustained profitability, Agriculture and Agri-Food Canada expects the hog herd in Canada to expand less than 2% through to 2020. While this may limit expansion in financing opportunities, the expectation of updating housing requirements may fuel additional financing opportunities in the industry as producers upgrade facilities to meet new codes of practice.

World demand for beef and pork is expected to expand by an annual average of 1.4 and 1.0% respectively, as projected by the Organisation for Economic Co-operation and Development.[9] This translates into a 16% increase in overall beef exports.

Between 2015 and 2024, Canadian beef exports are projected to increase by roughly 8%, capturing a smaller overall share of the export market. Over that same time period, Agriculture and Agri-Food Canada predicts a nearly 4 to 5% increase in the beef herd, which will start to rebuild from a decade of decline. The extremely small cattle herd in North America continues to support strong prices for cattle, but profit margins are weaker than 2014. Drought in parts of western Canada is pushing feed costs higher, especially for hay, and a rebuilding of the North American beef herd is also putting pressure on protein prices. Despite some challenges, the cattle sector holds growth opportunities and represents an opportunity for FCC to help finance an expansion.

Canadian supply-managed producers (dairy, poultry and eggs) may face additional challenges and opportunities through to 2020. Increased imports of dairy products, particularly cheese, through the CETA will be phased in over several years, lessening the impact on primary dairy producers. In the event the TPP agreement is ratified, both dairy and poultry producers will face increased competition in Canada, which will see a variety of new dairy and poultry imports to Canada. Any potential impacts of the TPP ratification are not fully known at this point as the agreement is being finalized, but similar to CETA, the agreement will be phased in over several years to allow the industry to adjust. Other issues such as imports of dairy ingredients and weaker dairy world prices are putting

[9] Organisation for Economic Co-operation and Development, OECD-FAO Outlook 2015-2024.

pressure on domestic milk revenues of producers.

Agriculture and Agri-Food Canada predicts that Canadian chicken production will increase by nearly 8% from 2015 to 2020, and that live chicken prices will increase 12%. The projected increase in poultry production is due to the positive influence of Canadian demographic trends, notably immigration and an aging population. Egg production is expected to increase nearly 4% per year over the next 10 years while prices are expected to remain unchanged over the same time period.[10]

Total sales of greenhouse products have been slowly trending upward since 2008[11], as has total greenhouse area.[12] Those trends should continue as the North American demand for year-round access to fresh vegetables is expected to continue to grow. The market share of greenhouse-grown vegetables continues to increase against field-grown alternatives.[13] Continued drought in California is supporting higher fruit and vegetable prices across North America and providing opportunities for producers in Canada.

Agribusiness enterprises predominantly provide inputs to primary producers. They often import or produce goods and services for sale to primary producers. Given the decline in profitability of the grain and oilseed sector, agribusiness that sell inputs to this sector are also expected to experience a slowdown. Farm equipment sales have weakened in 2015 and are expected to remain well below the five-year average, especially for four-wheel drive tractors and combines. Seed and fertilizer sales may soften in response to weaker demand as producers look to manage costs to preserve margins. The impact on FCC is mixed, as the need for financing could increase if primary producers reduce down payments on equipment and cash purchases, offsetting some of the decline in overall sales.

In contrast, agri-food operations purchase and process the output of primary producers. They include flour mills, crushing facilities, rendering plants, bakeries and processing facilities. These operations may face better opportunities if input costs decline. This is expected to be the case for grains and oilseeds. Conversely, meat processing plants have seen their input costs go up as livestock prices climbed considerably. Evidence suggests they have been able to pass on part of higher costs downstream to retailers and consumers.

Increasing productivity, investing in equipment, and achieving economies of scale are all factors that will determine future expansion in the agri-food sector.[14] FCC can expect that financing opportunities will continue to occur as facilities modernize and increase output to achieve the scale needed to compete. The evolution of Canadian food preferences toward healthier foods as well as technology and innovation will provide Canadian food manufacturers with opportunities to serve niche markets that can be highly lucrative.

### Farm debt

Total Canadian farm debt reached $84 billion in 2014, a 6.0% increase from 2013.[15] Debt has steadily increased since 2000 at an average annual rate of 5.7% (nominal dollars), pushed by declining interest rates and intensifying pressures to remain competitive in a more

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[10] Agriculture and Agri-Food Canada, Medium Term Outlook for Canadian Agriculture, 2015

[11] Statistics Canada. Table 001-0051- Total Value of Greenhouse Products annual (dollars). CANSIM database.

[12] Statistics Canada. Table 001-0046- Estimates of greenhouse total area and months of operation. CANSIM database.

[13] Farm Credit Canada. Update on the North American Greenhouse Industry, http://www.fcc-fac.ca/en/learningcentre/knowledge/doc/Greenhouse_study_e.pdf (Accessed Online: 3 June 2013)

[14] The Canadian Agri-Food Policy Institute. Tacking the Sector from Trade Deficits to a Competitive Resurgence. June 2014, http://www.capi-icpa.ca/pubs.html (Accessed Online: 24 June 2014)

[15] Statistics Canada. Table 002-0008 - Farm debt outstanding, classified by lender, annual (dollars), *CANSIM (database)*

globalized world. This steady increase in farm debt levels has been accompanied by steady increases in the value of farm capital, which increased by 10.8% in 2014 and has averaged growth of 6.6% per year since 2000 (nominal dollars).[16] The current environment of low financing costs helps farm businesses invest to capture economies of scale and increase productivity and efficiency. However, weaker margins in both crop and livestock sectors is slowing the appreciation in farm debt and asset levels.

The appreciation in farm capital has primarily been driven by increases in farmland values. The average value of Canadian farmland increased 14% in 2014 following an average increase of 22% in 2013, according to the FCC Farmland Values Report. Canadian farmland values have risen steadily over the past decade, driven mainly by strong crop receipts and low interest rates. In 2014, the appreciation in farmland values slowed, a trend that is mirrored across the United States. Lower crop income, combined with slowly increasing interest rates, is likely to lead to a steady farmland market over the next five years. Muted growth in the value of farmland will reduce the growth rate of the farmland debt market, reducing potential market opportunities for FCC.

Overall, the accumulation of farm debt is expected to slow slightly over the next five years and is expected to grow approximately 4.0% over the next five years. This slowdown is the net impact resulting from reduced profitability in the crop sector, slower appreciation of farm land, increased investment in cattle and hogs and slowly increasing interest rates.

### Summary

Overall, the outlook for the agriculture industry in Canada is positive, with potential growth of the beef sector and continued profitability in the grains and oilseed sector, although at lower levels. The supply managed sectors may need to adjust to the potential impacts of trade agreements. FCC will continue to monitor the trends in the agriculture and finance industries and will keep these top of mind when executing the strategy.

[16] Statistics Canada. Table 002-0007- Value of Farm Capital, at July 1. CANSIM database.

# 4.1 2015-16 planned performance and expected results

## 4.1.1 Summary of results – 2015-16 corporate scorecard

The following page summarizes the corporate measures, plan targets and projected results for the 2015-16 fiscal year (as of September 30, 2015).

### Sustainable business success

| Measures | 2015-16 Plan | 2015-16 Projected Results |
|---|---|---|
| Net income | $537.9 million | Ahead |
| Return on equity (ROE) | 10.5% | Ahead |
| Total capital ratio (as outlined in the Capital Management Policy) | > or = 15% | On track |
| Percentage of customer count in small- and medium-sized segments | > 80% * | Results not available until March 2016 |
| Young farmer lending | $2.35 billion | On track |
| Media favourability | 7 points above global average for financial institutions | Ahead |

### Great customer relationships

| Measures | 2015-16 Plan | 2015-16 Projected Results |
|---|---|---|
| Easy to do business CEI measure | 62.5% | On track |
| Customer Experience Index (CEI) | 62.0% | On track |

### Effective ERM

| Measures | 2015-16 Plan | 2015-16 Projected Results |
|---|---|---|
| ERM maturity measure | 3.6 | Results not available until March 2016 |

### Operational efficiency

| Measures | 2015-16 Plan | 2015-16 Projected Results |
|---|---|---|
| Efficiency ratio | 38.5%** | Ahead |
| Employee engagement - easy to do business | Greater than the average of the 50 Best Employers *** | Analysis of data results is not available until December 2015 |

### High-performance culture

| Measures | 2015-16 Plan | 2015-16 Projected Results |
|---|---|---|
| Leadership index – subset of employee engagement survey data with respect to leadership indicators | Greater than the average of the 50 Best Employers *** | Analysis of data results is not available until December 2015 |
| Employee engagement | Greater than the average of the 50 Best Employers *** | Analysis of data results is not available until December 2015 |
| Employee experience – employee experience indicators | Greater than the average of the 50 Best Employers *** | Analysis of data results is not available until December 2015 |
| Diversity measure | Hire 6 new diversity candidates from the designated groups where we have gaps | Results not available until April 2016 |

*FCC management changed how FCC defines small- to medium-sized enterprises – moving from the Capital Adequacy Requirements (CAR) definition created by OSFI to an internal definition of enterprises with less than $1 million in revenue to better represent the Canadian agriculture industry. As a result of using the more representative definition, FCC also adjusted the measure target from greater than 90% to greater than 80% to better reflect our customer count.

**2016 Plan numbers have been updated to reflect the nature of expenses and conform to the 2015 actual presentation.

***Aon Hewitt has moved from reporting the average of the 50 Best Employers, to providing data for Platinum and Gold employers. As a result, FCC will report against the Platinum and Gold employers' average.

### 4.1.2 Operational and financial highlights

For the years ending March 31

| Operational | 2015 | 2014 | 2013 |
|---|---|---|---|
| **Loans receivable portfolio** | | | |
| Number of loans | 147,230 | 149,130 | 147,696 |
| Loans receivable ($ millions) | 27,309 | 26,205 | 25,133 |
| Net portfolio growth (%) | 4.2 | 4.3 | 8.3 |
| Impaired loans as a percentage of loans receivable (%) | 1.1 | 1.2 | 1.3 |
| **New lending** | | | |
| Number of loans disbursed | 47,178 | 46,288 | 47,046 |
| Net disbursements ($ millions) | 8,555 | 7,695 | 7,746 |
| Average size of loans disbursed ($) | 178,825 | 163,649 | 162,406 |

| Financial Highlights | 2015 | 2014 | 2013 |
|---|---|---|---|
| **Consolidated balance sheet ($ millions)** | | | |
| Total assets | 28,681 | 27,290 | 25,871 |
| Total liabilities | 23,769 | 23,070 | 22,340 |
| Equity | 4,912 | 4,220 | 3,531 |
| **Consolidated income statement ($ millions)** | | | |
| Net interest income | 938.2 | 889.7 | 854.0 |
| Provision for credit losses | (281.4) | (47.6) | 38.1 |
| Other income | 14.1 | 21.8 | 15.6 |
| Administration expenses | 339.1 | 356.1 | 329.8 |
| Fair value adjustment | 13.5 | 39.0 | 1.9 |
| Net income | 908.1 | 642.0 | 503.6 |

### Key results

In 2014-15, economic conditions improved across the developed world. Farm asset values continued to increase mainly due to rising land values driven by a healthy Canadian agriculture economy and growing world food demand.

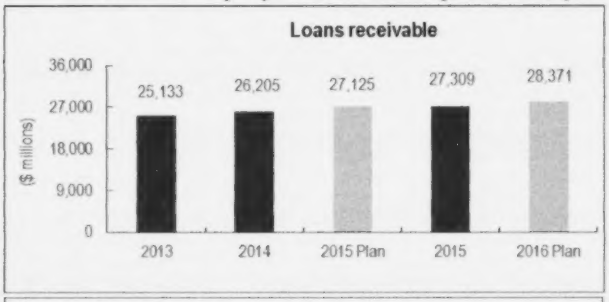
FCC continued to support agriculture by providing customers with flexible and customized financing solutions and other expertise. FCC's commitment to advancing the business of agriculture and its customers, along with providing exceptional customer service, has ensured that FCC remains relevant to the industry's needs. In 2014-15, growth in loans receivable was $1.1 billion or 4.2%.

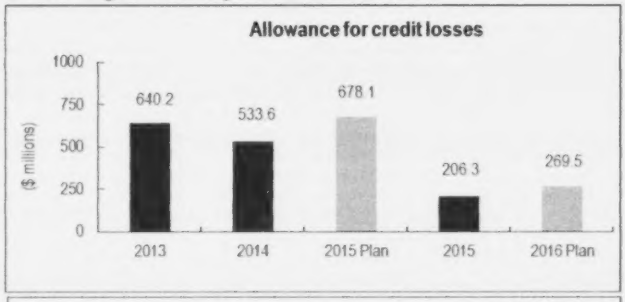
FCC continued to produce strong financial results in 2014-15. The number of loans disbursed was 47,178 in 2014-15 with an average disbursement size of $178,825, resulting in net disbursements of $8.6 billion. Net interest income increased by $48.5 million and equity continues to grow with corporate earnings. The significant increase in net income in 2014-15 was due to a recovery in provision for credit losses related to a change in accounting estimate impacting the allowance for credit losses on the balance sheet.

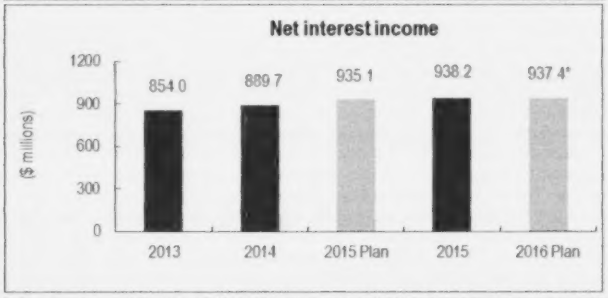
- In 2014-15, portfolio growth was above the plan by $183.7 million and represented growth of 4.2% over 2013-14.
- The allowance for credit losses was lower than the plan by $471.8 million, mainly due to the one-time adjustment related to the change in credit loss estimates along with an improvement in

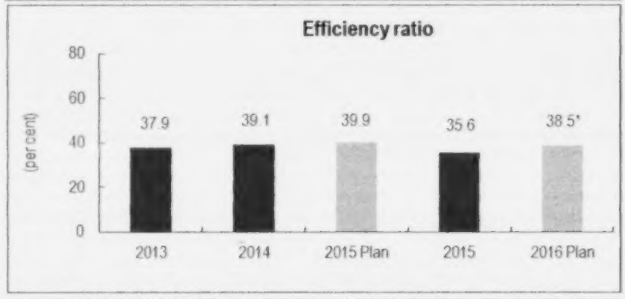
portfolio health. In fiscal 2014-15, FCC implemented an updated and refined estimation for credit losses in the loan and leases portfolio. The new estimation results in changes to the allowance for credit loss assumptions for probability of default and loss given default. Overall, the new probability of default model results in lower scores in the majority of the portfolio. These enhancements bring FCC closer in line with its own historical loss experience. The new loss given default model was built using predictive analytics to produce a model that best predicts loss of individual loans versus predicting the loss of the aggregated loan portfolio as in the previous model.

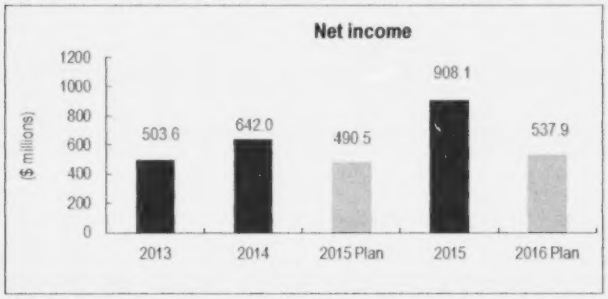
- Net interest income was $3.1 million higher than plan, increasing to $938.2 million mainly due to higher loans receivable, partially offset by a lower than plan net interest margin.
- The 2014-15 efficiency ratio of 35.6% was lower than plan mainly due to lower administration expenses, related to lower pension expense and lower Enterprise Risk Management program expenses.
- Net income was $417.6 million above plan, mainly due to lower-than-plan provision for credit losses due to a one-time adjustment and lower administration expenses.
- Return on equity exceeded the plan mainly due to the higher-than-plan net income.

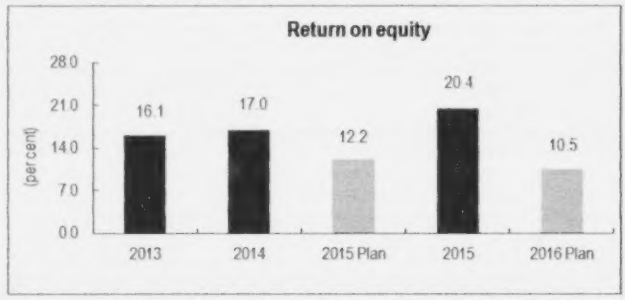



*2016 Plan numbers have been updated to reflect the nature of expenses and conform to the 2015 actual presentation.

# 5.0 | Strategic themes, objectives and performance measures

## 5.1 Strategic planning process

FCC's strategic planning process engages the FCC Board of Directors, Enterprise Management Team (EMT) and Senior Leadership Team (SLT) to develop the corporation's business strategy.

The business strategy is used to develop divisional plans. All employees receive a brief summary of the objectives, initiatives and measures, which are incorporated in the team and employee objectives used to evaluate performance annually.

The corporate plan is an output of the strategic planning process. It outlines how the corporation will achieve its vision, mission and value proposition.

### Strategy development

FCC uses a modified balanced scorecard approach to develop strategic plans, monitor implementation and measure progress against the corporate strategy. The corporate scorecard is based on Kaplan and Norton's balanced scorecard, which balances attention on four perspectives: financial, customers, internal processes and efficiency, and learning.

At the start of the strategy process, FCC looks at the needs of customers, employees, stakeholders and the public. Leaders and subject matter experts across the corporation work to envision possible futures for FCC and the agriculture industry. EMT and SLT then look at potential gaps in FCC's current strategy. These gaps are addressed when the new business strategy is created.

Strategy creation starts with defining desired outcomes by examining FCC's vision, mission, values, cultural practices, strategic playing field (strategic planning assumptions and boundaries), and the business operating environment review. These elements are considered together to develop the desired critical outcomes for each of the strategic themes.

FCC uses a strategic asset model as a framework for evaluation. Strategic assets are the reasons customers choose FCC over its competitors. They cannot be easily duplicated and are critical to the corporation's long-term success. If strategic assets are not sustained or grown, corporate results may be jeopardized.

The results of FCC's strategic asset evaluation indicate that great customer relationships are the primary reason customers choose FCC. It was also determined that FCC's high-performance culture is foundational to great customer relationships, as illustrated in the corporate strategy map (section 5.3). Together, these themes feed into the sustainable business performance theme, contributing to the success of FCC and Canada's agriculture industry.

Two additional themes emerged outside the strategic assets. The enterprise risk management (ERM) theme protects the customer relationship. The execution excellence theme is how we enable great customer relationships.

Corporate measures and one- to five-year plan targets define how FCC will measure the objectives set out in the strategy. The current state is discussed based on a review of the operating environment as well as risks, strengths, weaknesses, opportunities and threats.

Corporate objectives and initiatives are then developed to realize the five-year measures and plan targets, followed by action plans that will be implemented and monitored through the corporate scorecard.

## 5.2 Enterprise risk management (ERM)

FCC uses an ERM framework to ensure that risks are adequately governed, identified, assessed, managed, monitored and reported in a holistic manner. Effective ERM enables FCC to achieve its strategic objectives and ensure sustainable business success.

Risk is inherent in FCC's business. The corporation is exposed to six main categories of risk: credit risk, liquidity risk, market risk, operational risk, reputation risk and strategic risk. Each category has distinct risks within it that are assessed for likelihood and impact using various tools. The overall assessment of risk is reflected in the amount of capital required using FCC's capital models and allowancing model. Each category is governed by a Board-approved policy to identify, assess, manage and monitor these risks in accordance with the policy, FCC's risk appetite, the *Farm Credit Canada Act* and, where applicable, the Finance Ministers Financial Risk Management Guidelines for Crown Corporations. In addition, FCC has an overall risk appetite statement and an ERM policy and framework that set the corporation's boundaries for risk taking, risk acceptance and risk avoidance.

As a result of the Office of the Superintendent of Financial Institutions Canada (OSFI) review and evolving risk management practices in the financial services industry, FCC continues to augment its business-as-usual and incremental ERM efforts. Over the past three years, FCC has enhanced its risk governance and oversight, ERM framework, credit risk management practices, and is continuing work on capital management and stress-testing.

FCC has revised its ERM framework to reflect recent governance changes to move toward a three lines of defence model. The corporation has gained additional insight on the delineation between roles and responsibilities for risk taking and risk management (first line) and for risk oversight (second line) through the three lines of defence.

The first line of defence provides solutions that balance customer, industry and FCC needs and operates within policy to achieve the best possible result for the customer and the corporation.

The second line of defence is to provide independent, effective challenge to the risk-taking decisions of the first line, while enabling great customer relationships. It is responsible for independently developing policy and process to identify, assess and control risk and monitor control effectiveness. An independent view of risk is provided to the Board by the second line.

The third line of defence reviews and provides independent assurance of risk management practices and the effectiveness of internal controls. At FCC, the Internal Audit function represents the third line of defence.

**Governance**
The Board has ultimate accountability for overseeing FCC's ERM framework to ensure that the corporation's risk management is integrated with its strategic, financial and operating plans.

**FCC's risk governance structure**

Annually, the Board reviews and approves a risk appetite statement that establishes the amount of risk the corporation is willing to take, accept and avoid. The risk appetite statement, which is grounded in FCC's strategy, is summarized as follows:

- FCC uses its understanding of agriculture financing to take risks that are good for the customer, the corporation and the agriculture industry.
- FCC accepts the risk of taking a long-term view to maintain a steady presence in the marketplace.
- FCC avoids risks that could jeopardize its mandate and financial viability to protect the reputation of the corporation and its shareholder.

In addition to the annual review and approval of the risk appetite statement, the Board reviews and approves seven risk policies that govern all of the major categories of risk to which FCC is exposed. The Board monitors policy through a quarterly risk report that reports against the risk appetite and limits contained in the risk policies. Any policy exceptions or breaches are reported to the ERM Committee and the Board.

The Chief Risk Officer (CRO) leads an independent risk division and ensures that FCC's risk management function is adequately resourced. The CRO is independent of operational management and reports directly to the Board's Risk Committee. The CRO is responsible for oversight of risk across FCC, identifying, measuring, monitoring and reporting on the risks, and independently reporting to the Board and Risk Committee as to whether FCC is within its risk appetite and/or policy limits. The CRO works with business functions to design and implement action plans in the event of policy breaches and ensures that applicable business functions provide accurate and objective risk reports. The ERM Committee serves in an advisory capacity to the CRO.

## Risks

FCC has six main categories of risks.

**Credit risk** is the potential for financial loss due to the failure of a borrower or other counterparty to repay a loan or meet financial obligations to the corporation. With FCC's knowledge of agriculture, FCC assesses the impact and likelihood of credit risk at the loan and portfolio levels. Such assessments not only consider credit risk management best practices for financial institutions but also use sophisticated statistical methods to assess the probability of loan defaults as well as the financial impact of such defaults. The entire credit portfolio is assessed monthly, and reports pertaining to the portfolio's health are reviewed by the ERM Committee and the Board Risk Committee.

Oversight responsibility for credit risk lies with the Board. The ERM Committee, Asset Liability Committee (ALCO), Credit Committee, Credit Policy Committee and several divisions and units perform various functions at different levels to efficiently manage credit risk within FCC's credit risk management framework.

The credit risk assessment process begins at the line management level and ends at the Credit Committee (senior management level). FCC employs a two-dimensional credit assessment process. Assessment is carried out for the entire credit portfolio on a transactional and portfolio basis. At FCC, credit assessment is an ongoing process.

Assessment tools and models are in place to quantify risks, establish the required allowance for loan and lease losses, and monitor capital adequacy. FCC also closely monitors the agriculture and agri-food operating environments to ensure that the corporation's lending policies, activities and practices are appropriate and account for risk and opportunity in the marketplace.

FCC is also exposed to credit risk through its investing activities. All investing activities are consistent with the Minister of Finance's Financial Risk Management Guidelines for Crown Corporations, governed by Board approved policies and monitored by the ERM Committee and the Board.

FCC has defined credit policy limits for transactional risk management, concentration risk and portfolio management, and investment limits for short- and long-term liquidity investments and counterparty credit risk for derivatives.

**Liquidity risk** is the risk that FCC will have insufficient funds to meet its payment obligations. The corporation minimizes liquidity risk through the use of a liquid investment portfolio, funding through the Crown Borrowing Framework and access to an operating line of credit. FCC assesses this risk, understanding it can have a potentially high impact yet due to this three-tiered approach and readily available source of funds, the likelihood remains low resulting in negligible risk. Thus, this risk is not reflected in the capital requirements. The Treasury division is responsible for managing liquidity risks. Policy limits have been established for market and funding liquidity.

**Market risk** is a potential loss as a result of adverse changes in underlying market factors, such as interest rates and foreign exchange rates. FCC assesses this risk using sophisticated methodology that applies financial market theory to assess the risks of market events such as interest rate movements on FCC and the impact of those movements. These assessments are based on FCC's liabilities and its assets (loans) and the risk is reflected in the capital requirements. The Treasury division is responsible for market risk management.

Policy limits have been established for net interest income variability, decline in market value of portfolio equity, commitment risk exposure and foreign currency risk exposure.

**Operational risk** relates to the potential of direct and/or indirect loss due to inadequate or failed internal processes, people, systems and/or external events, and failure to comply with or adapt to legislative or regulatory requirements or litigation.

The main sources of operational risk are people, processes and systems. At FCC, managers are responsible for ensuring appropriate policies and processes are in place within their business units to manage risks, and internal controls are operating effectively. Risk and control assessments identify and assess key risks to ensure appropriate controls are in place or gaps are closed. Key controls are monitored on a regular basis to determine their effectiveness.

FCC has a formal program to measure and monitor operational compliance to policies for credit, market and liquidity risk. Compliance reporting provides recommendations to address

non-compliance, including employee coaching, policy clarifications or additional controls.

In addition, FCC's operations audit program examines lending activities and provides learning opportunities for continual improvement in the areas of risk assessment and mitigation, compliance to credit policies and data integrity.

Incidents of fraud may negatively affect customer and public perceptions of FCC, making current and potential customers less willing to do business with the corporation. FCC reduces exposure to fraud risk by delivering fraud awareness training to employees and having a policy and process in place regarding customer identification.

To ensure the corporation can sustain operations in the event of a business disruption, FCC actively updates and tests its business continuity plan.

Enterprise security is addressed through a cross-divisional security co-ordination team that provides security controls to protect the availability, confidentiality and integrity of FCC assets.

**Reputation risk** is the risk that key stakeholders and other members of the public may develop negative perceptions about FCC that could adversely affect the corporation's reputation and its ability to attract and retain customers, business partners and employees.

As a federal Crown corporation, FCC is accountable to all Canadians. To avoid real or perceived reputational damage, FCC has a robust governance structure in place, including policies and procedures to guide employee conduct in interactions with colleagues, customers, industry partners, suppliers, media and the general public.

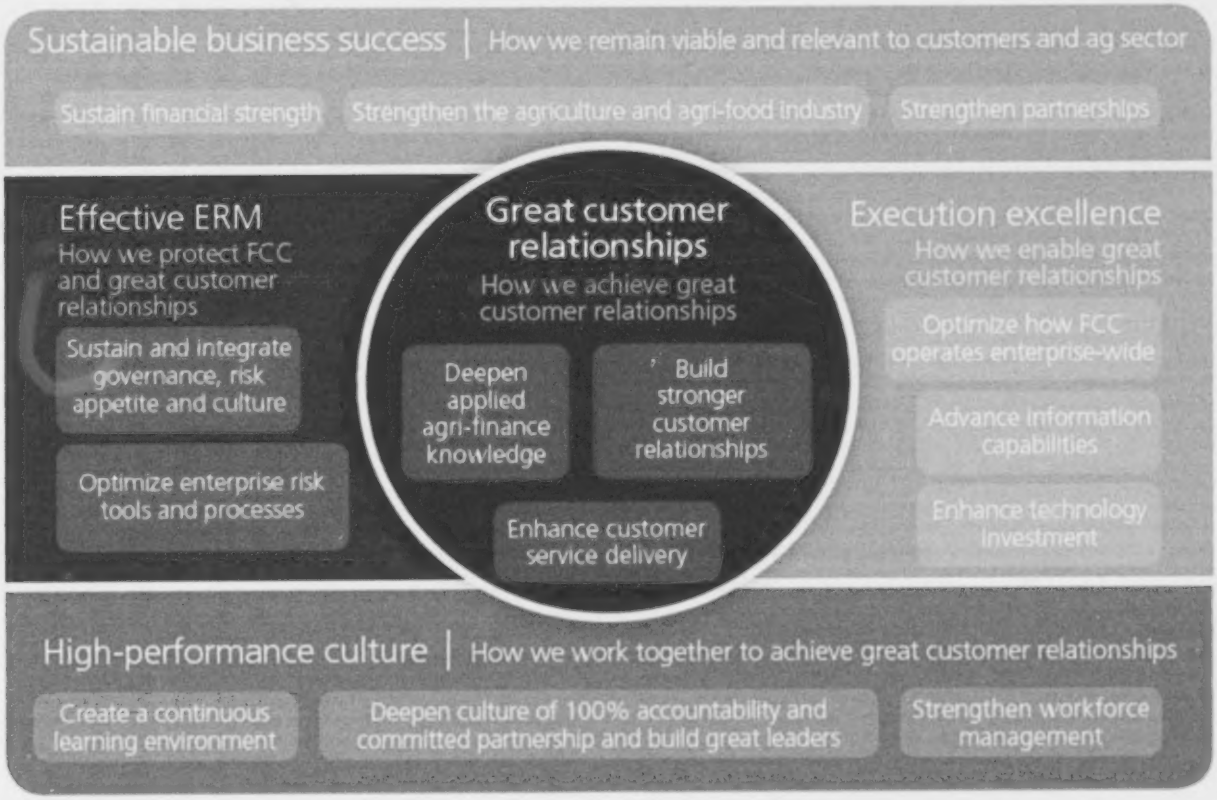
Consideration of integrity and the potential impact on FCC's reputation from conducting business with any particular individual is part of the lending process. The loan application process requires customers to sign a declaration stating that they know of no reason why FCC may have any concern with their business.

**Strategic risk** refers to risks related to the external environment. It includes competitors and the corporation's ability to develop and implement effective business strategies.

Potential strategic risks are identified and analyzed through external scanning, consultation with internal subject matter experts and other means. The Board discusses the top enterprise risks during its involvement in the strategic planning cycle. EMT members are accountable for developing risk mitigation plans, monitoring key risk indicators, reporting progress to mitigation strategies and reporting to the Board on a quarterly basis through corporate risk reporting.

Within FCC's risk appetite, executive management develops a corporate strategy annually with oversight provided by the Board. Progress on the strategic plan is monitored through quarterly reports to senior management and the Board. The external environment, including the Canadian financial marketplace and the agriculture industry, is monitored to discern if strategic changes are required to address emerging risks. FCC regularly communicates with the federal government to ensure that the corporation's activities align with government priorities.

## 5.3 Corporate strategy map


Sustainable business success | How we remain viable and relevant to customers and ag sector
Sustain financial strength
Strengthen the agriculture and agri-food industry
Strengthen partnerships
Effective ERM
How we protect FCC and great customer relationships
Sustain and integrate governance, risk appetite and culture
Optimize enterprise risk tools and processes
Great customer relationships
How we achieve great customer relationships
Deepen applied agri-finance knowledge
Build stronger customer relationships
Enhance customer service delivery
Execution excellence
How we enable great customer relationships
Optimize how FCC operates enterprise-wide
Advance information capabilities
Enhance technology investment
High-performance culture | How we work together to achieve great customer relationships
Create a continuous learning environment
Deepen culture of 100% accountability and committed partnership and build great leaders
Strengthen workforce management

### 5.3.1 Sustainable business success

| Sustainable business success - How we remain viable and relevant to customers and ag sector | | | | | | |
|---|---|---|---|---|---|---|
| Strategic objective | Measures | 2016-17 plan | 2017-18 plan | 2018-19 plan | 2019-20 plan | 2020-21 plan |
| **Sustain financial strength** | Net income | $545.7 M | $567.4 M | $590.8 M | $617.2 M | $652.7 M |
| | Return on equity | 9.7% | 9.2% | 8.7% | 8.4% | 8.2% |
| | Capital adequacy measure | 17.5% | 18.3% | 19.1% | 19.9% | 20.7% |
| | **Develop a loan pricing framework** | | | | | |
| | **Redefine the growth strategy** | | | | | |
| **Strengthen the agriculture and agri-food industry** | Young farmer lending | $2.45 B | $2.55 B | $2.66 B | $2.78 B | $2.91 B |
| | Percentage of customer count in small- and medium-sized segments | Greater than 80% | Greater than 80% | Greater than 80% | Greater than 80% | Greater than 80% |
| | **Align FCC's higher purpose and mandate and develop and implement a plan to communicate both to FCC's stakeholders** | | | | | |
| | **Execute on the A&A strategy that includes support for value-added production** | | | | | |
| **Strengthen partnerships** | **Continue to advance stakeholder relationships** | | | | | |
| | **Continue to advance the Ag More Than Ever cause** | | | | | |

The critical outcome that FCC is striving to attain for this theme is:

*In 2025, FCC is Canada's leading agriculture and agri-food lender. Recognized as a catalyst for the industry; FCC is respected and supported by stakeholders who understand the unique value that FCC brings to the market. The corporation has the financial strength to serve the agriculture industry through all economic cycles, focusing on small and medium-sized primary producers and agri-businesses.*

FCC is committed to remaining financially viable and self-sustaining in the long term, while investing significantly in the agriculture industry and forging valuable partnerships. The corporation will continue safeguarding its reputation and strong financial position so that it can maintain its ability to serve the industry through all economic cycles and meet shareholder expectations.

FCC will achieve its critical outcomes for this theme through the following five-year objectives:

- sustain financial strength
- strengthen the agriculture and agri-food industry
- strengthen partnerships

#### Sustain financial strength

FCC must ensure that its financial and risk management practices are appropriate and effective, addressing uncertainties in the business environment and keeping pace with best practices in the financial services industry. After the farm crisis of the 1980s, FCC committed to operate as a financially self-sustaining federal Crown corporation. FCC has been profitable for 22 years, which has allowed the corporation to fund its growth and create adequate capital reserves to backstop potential losses that may arise from the inherent risks in the business, while paying an annual dividend to its shareholder, the Government of Canada.

FCC's strong financial position enables it to create innovative products and services that meet the needs of the agriculture industry, and ensures that producers and agribusiness operators have choices in the marketplace.

Two risks have been identified that may impact Sustain Financial Strength. The first is that pressure from competitors may have a negative impact on portfolio growth, market share and net income. A related risk is that competitive pricing may cause a negative impact to margins related to credit facility re-pricing for renewals, conversions and buy downs.

Two initiatives have been identified to help progress this objective and mitigate related risks:

- Develop a loan pricing framework
- Redefine growth strategy

FCC uses three measures to track progress on this objective:

- Net income
- Return on equity
- Capital adequacy

**Develop a loan pricing framework**
Pricing is a fundamental element in FCC's financial success and a comprehensive pricing framework will benefit FCC. Increasing clarity and understanding of all components of pricing, including charges for administration costs, risk of potential credit losses and capital, will increase transparency and understanding to support the achievement of corporate financial targets and the long-term sustainability of the corporation.

**Redefine the growth strategy**
FCC will redefine its national growth strategy to ensure the corporation maintains its national market presence. In 2016-17, work will be completed to better understand market share drivers for primary production and agri-business and agri-food lending. Analysis will also be completed to better understand market opportunities for the various FCC locations across the country considering projected growth of each market, current market share, competition frequency and intensity and resources. Plans and tactics will be developed to support the strategy for market growth or retention for each location.

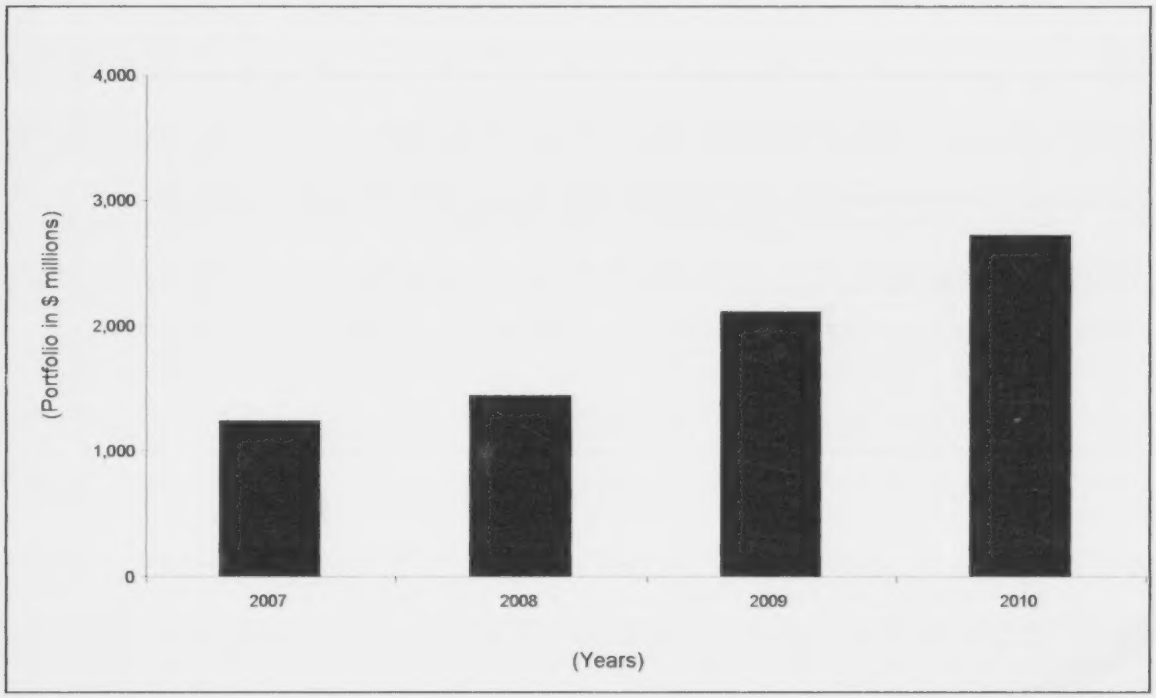
### Strengthen the agriculture and agri-food industry

FCC strengthens the agriculture and agri-food industry by providing specialized and personalized business and financial services, supporting growth in Canada's processing and manufacturing sector, demonstrating commitment to the industry over the long term, enhancing the perceptions of agriculture, and being an active champion of environmental and social responsibility.

Primary production is FCC's core business and represents 85.2% of the loan portfolio. The remaining 14.8% represents loans to agricultural enterprises that directly support producers. Although FCC serves operations of all sizes, its focus will continue to be on small- to medium-sized producers.

As a Crown corporation, FCC plays an important role in filling financing gaps for Canadian producers and agribusiness operators. The agriculture industry is often affected by volatility in commodity prices, adverse weather conditions, livestock and crop diseases, and trade implications. FCC takes a long-term view and remains committed to customers and the industry in difficult times by providing steady access to capital. For example, during the financial crisis in 2009, FCC continued to grow and expand its portfolio as depicted in the graph below.

**Change in FCC's portfolio from 2007 to 2010**




FCC plays an important role in the marketplace, benefiting producers, the agriculture industry, rural Canada and all Canadians. Its long-term commitment provides customers with the confidence they need to grow and take advantage of opportunities in their businesses.

FCC recognizes that young farmers are important to the future of the agriculture and agri-food industry in Canada. The corporation understands the challenges new entrants face and offers support to help young farmers succeed. Recognizing that interest and enthusiasm for agriculture starts early, FCC supports young farmers at every stage of their careers with financing and learning opportunities. Together, FCC and young farmers are creating a solid future for the industry.

The story of Canadian agriculture is one of success, promise, challenge and determination. FCC plays an important role in ensuring that all Canadians understand agriculture and its important contribution to the economy, communities and individuals. It takes significant effort and long-term commitment to change perceptions. FCC, in partnership with the industry, is providing leadership in promoting positive messages in the industry and beyond.

FCC uses two measures to track its progress on this objective:

- Young farmer lending
- Percentage of customer count in small- and medium-sized segments

The young farmer lending measure captures net disbursements to young farmers in primary production and Alliances loan products (excluding Agribusiness and Agri-Food lending). Young farmers are defined as all customers under 40, who are primary borrowers, co-borrowers or guarantors for personal and corporate loans.

Percentage of customer count in small- and medium-sized segments, defined as operations with revenues under $1 million, is calculated by counting the number of primary producers in small- and medium-sized segments in comparison to the total number of primary producers.

Two initiatives have been identified to advance this objective:

- Align FCC's higher purpose and mandate and develop and implement a plan to communicate both to FCC's stakeholders
- Execute on the A&A strategy, including support for value-added production

**Align FCC's higher purpose and mandate and develop and implement a plan to communicate both to FCC's stakeholders**
FCC recognizes that it's more than an agricultural lender. The corporation will develop a strategy that identifies opportunities for it to help Canada's agriculture industry become more innovative, safer and stronger. The corporation will act as an environmentally responsible organization and support those practices throughout the industry. Once the strategy is developed, an approach will be created to support FCC in communicating to key stakeholders.

**Execute on the A&A strategy that includes support for value-added production**
While primary production is the foundation of FCC's business, FCC recognizes the importance the Agribusiness and Agri-Food (A&A) sector has on Canada's agriculture industry. A healthy value chain provides producers with stable purchasing and selling options. FCC has several opportunities to better serve the A&A sector and deliver on FCC's mandate and mission including:

- Expanding eligibility to serve more of the A&A sector
- Enhancing support for small- and medium-sized A&A operations
- Growing with our large A&A customers

### Strengthen partnerships

FCC acts as a catalyst to connect the agriculture industry to experts, communities and knowledge, strengthening relationships with stakeholders and increasing support for the agriculture industry through strong private sector and commercial Crown financial partnerships.

FCC works in partnership with industry associations and government to understand the challenges and opportunities in the industry. This allows FCC to better serve the needs of these associations, their members, customers, communities and, ultimately, Canadian agriculture.

Currently, there is no measure to track this objective.

Two initiatives will be pursued to advance this objective:

- Continue to advance stakeholder relationships
- Continue to advance the Ag More Than Ever cause

**Continue to advance stakeholder relationships**
Building on progress to date, FCC will develop and implement a formal strategy to strengthen its relationships with key stakeholders. Many areas of FCC interact and collaborate with stakeholders. A more sophisticated, coordinated, consistent and strategic approach to these relationships will enhance FCC's reputation and help the corporation respond to opportunities and risks to support the Government of Canada's priorities.

These stakeholders include, but are not limited to:

- customers and prospects
- industry associations, including producer and sector groups, youth organizations, A&A associations
- federal government, including Agriculture and Agri-food Canada, Department of Finance, Privy Council Office and Treasury Board Secretariat
- elected officials, including Parliamentarians and provincial representatives
- Financial institutions and partners, including credit unions, Canadian banks, EDC and BDC
- media organizations
- rural communities and other areas where FCC has a presence

**Continue to advance the Ag More Than Ever cause**

One of FCC's initiatives to accomplish this objective is Agriculture More Than Ever (AMTE), a multi-year industry cause to improve perceptions of agriculture in Canada. The intent is to stimulate positive discussion about Canadian agriculture with industry stakeholders, producers and the public. Through a positive image, the industry can attract more people, create investment opportunities and support innovation – all of which are necessary to feed a growing world population.

AMTE shares resources, information and facts to instill pride in producers and everyone involved in or interested in Canadian agriculture. The goal is to create industry champions, known as agvocates, who share positive stories and information about Canadian agriculture. AMTE's industry partners are widespread and include businesses, industry associations, agricultural trade shows, and media organizations.

After three years of building the foundation of the cause, a new three-year plan is in development to identify the next steps required to continue the momentum. The strategy will define the next stages for AMTE with a focus on mobilizing partners and strengthening the connection with consumers.

### 5.3.2 Great customer relationships

| Great customer relationships - How we achieve great customer relationships | | | | | | |
|---|---|---|---|---|---|---|
| Strategic objective | Measures | 2016-17 plan | 2017-18 plan | 2018-19 plan | 2019-20 plan | 2020-21 plan |
| **Enhance customer service delivery** | Easy to do business – CEI measure | 62.5% | 63.0% | 63.5% | 64.0% | 64.5% |
| | **Define and implement the next FCC experience** | | | | | |
| **Deepen applied agri-finance knowledge** | FCC Learning post-event survey – attendees 'likely to use information' | Greater than or equal to 4.0 | Greater than or equal to 4.0 | Greater than or equal to 4.0 | Greater than or equal to 4.0 | Greater than or equal to 4.0 |
| | **Provide knowledge to advance customers' management capabilities** | | | | | |
| | **Advance employee knowledge about ag-related issues** | | | | | |
| **Build stronger customer relationships** | CEI | 62.0% | 62.5% | 63.0% | 63.5% | 64.0% |
| | **Enhance the relationship management process** | | | | | |

The critical outcome that FCC is striving to attain for this theme is:

*In 2025, strong customer relationships are central to FCC's success. The corporation's unmatched knowledge of agriculture and agri-food, and finance continues to be foundational to building great customer relationships. Partnering with FCC is easy – employees know their customers and are able to offer innovative and flexible solutions to unique business challenges over the long term.*

FCC has defined great customer relationships as its key differentiator, supported by enterprise risk management, execution excellence and a high-performance culture. Through great customer relationships, FCC will strengthen and grow its customer base and ensure that its business success is sustainable.

Progress on this theme is measured through FCC's Customer Experience Index (CEI). The customer experience is measured every month to gauge how FCC is perceived across Canada. Each survey measures satisfaction, loyalty, ease of doing business and service resolution. To be considered extraordinary, only perfect scores are counted.

All employees are expected to follow certain standards that support FCC's customer experience. These standards create a consistent, intentional experience for all customers and help customers feel that FCC is relationship-oriented, flexible, knowledgeable about agriculture and committed to the industry.

FCC will enhance great customer relationships and equip producers with financial and business management tools through the following five-year strategic objectives:

- enhance customer service delivery
- deepen applied agri-finance knowledge
- build stronger customer relationships

#### Enhance customer service delivery

Enhance customer service is about making it easier for customers to do business with FCC. The corporation has developed its own unique approach to lending through technology and a suite of analytic tools tailored to the agriculture industry. It will focus on ensuring lending processes are efficient, integrated and consistent, allowing FCC to effectively manage risk while providing all customers with an extraordinary experience.

To track progress on this objective, FCC will use the easy-to-do-business subset of the CEI, which measures how easy it is for customers to do business with FCC.

In 2016-17, FCC will continue to focus on its core primary production customers and further develop lending to manage the increasing complexity, risk and evolving needs of its agribusiness and agri-food customers and Alliance partners.

One initiative has been identified to further this objective.

**Define and implement the next FCC experience**

FCC has a long-term goal to become a digital organization that provides employees with seamless access to tools and knowledge to serve FCC's customers and the industry. The corporation has received feedback through various mediums, including employee surveys, that FCC's current platform for sharing information is outdated, difficult to update, doesn't meet employees' changing needs and limits the ability to access information off site. In 2016-17, a strategy will be developed to address these challenges with specific attention on making it easier for employees to access the information needed to do their job.

### Deepen applied agri-finance knowledge

FCC prides itself on its knowledgeable agriculture-lending team, which is responsive, solution-focused, understands agricultural risk and applies its knowledge every day to serve FCC's customers. Customers value FCC's knowledge, expertise and speed of service. They trust FCC and value the relationship it builds with them.

Today's producers and agribusiness operators are experts in their respective industries. They must also deal with complex financial management, human resources issues, partnerships, diversification and international markets. As producers and agribusiness operators continue to become more sophisticated in their operations and knowledge of agriculture, FCC will be challenged to meet their expectations.

FCC must ensure that its employees stay current with their technical skills and competencies required to meet the changing knowledge needs of its customers. FCC hires employees with agriculture and/or financial backgrounds who are committed to making a difference to the industry.

FCC researches and develops unique tools to help customers, stakeholders and the industry anticipate and understand changes in agriculture. FCC also supplements employee knowledge with publications for producers, and agribusiness and agri-food operators. FCC will continue to offer management workshops, learning forums and multi-media resources to ensure that producers of all ages can access the training and information needed to succeed in the future.

To track progress on this objective, FCC will use the results from post-event surveys. As part of the survey, attendees are asked if they are likely to use information from the event in their farming operation. Respondents pick an answer on a 1-5 scale. FCC's target is to have the average score be 4.0 or higher.

In addition to the above activities, FCC will also complete the following two initiatives to further this objective:

- provide knowledge to advance the capabilities of customers
- advance employee knowledge about ag-related issues

**Provide knowledge to advance customers' management capabilities**

FCC will continue to fill knowledge gaps by producing leading-edge publications, videos, podcasts and webinars. New technology platforms will support knowledge flow within FCC to ensure that it efficiently transfers from the people who have it to those who need it. Knowledge will be targeted to customer needs and situations.

**Advance employee knowledge about ag-related issues**
The focus of this initiative will be to equip employees with the appropriate knowledge and tools to help customers make sound business decisions, reinforce FCC's unique position in the marketplace and positively impact the customer experience. This initiative will increase employee capacity to share knowledge, including how it's prioritized and packaged to distribute to their customers (text, Twitter, emails, etc.).

## Build stronger customer relationships

FCC's approach to customer relationship management is proactive, innovative and highly disciplined. Continual learning helps front-line employees strengthen their relationships with customers and provide an extraordinary customer experience based on their current and potential financing needs. The focus will be on providing a seamless experience for customers across business lines.

Progress on this objective will be tracked through the Customer Experience Index (CEI). Customer feedback gathered through the CEI is analyzed so that they can continually improve. More than sixty percent of the national customer responses to the questions that make up the CEI are perfect when rating their experiences with the corporation. FCC focuses on improving this level of customer satisfaction by continually coaching its relationship managers based on local CEI scores. The corporation has updated its customer experience strategy to incorporate anticipated changes in the operating environment over the next few years.

**Enhance the Relationship Management Process (RMP)**
In 2015-16, a review of the RMP process was completed and recommendations were identified. In 2016-17, work will continue on implementing the recommendations including:

- Updating RMP content and making it available online
- Refreshing the RMP onboarding program for employees
- Reviewing and evaluating systems supporting the RMP

### 5.3.3 Execution excellence

| Execution excellence - How we enable great customer relationships | | | | | | |
|---|---|---|---|---|---|---|
| Strategic objective | Measures | 2016-17 plan | 2017-18 plan | 2018-19 plan | 2019-20 plan | 2020-21 plan |
| **Optimize how FCC operates enterprise-wide** | Efficiency ratio | 38.3% | 38.3% | 38.8% | 38.8% | 38.5% |
| | Employee engagement - easy to do business | Greater than the average of the Platinum and Gold employers | Greater than the average of the Platinum and Gold employers | Greater than the average of the Platinum and Gold employers | Greater than the average of the Platinum and Gold employers | Greater than the average of the Platinum and Gold employers |
| | **Improve productivity in FCC's key processes** | | | | | |
| | **Simplify and consolidate FCC system architecture** | | | | | |
| | **Implement the financial systems strategy** | | | | | |
| **Advance information capabilities** | Investigating new measures | | | | | |
| | **Mature information and data management** | | | | | |
| | **Define and implement a digital strategy** | | | | | |
| **Enhance technology investment** | Investigating new measures | | | | | |
| | **Define technology strategy and lifecycle** | | | | | |

The critical outcome that FCC is striving to attain for this theme is:

*In 2025, FCC anticipates customer needs and exceeds expectations through agile and innovative solutions, processes and systems. FCC is a digital organization and internal systems are optimized and employees have the tools and knowledge to do their jobs.*

FCC is committed to high performance, accountability and efficiency to achieve execution excellence. FCC understands that continually improving and streamlining corporate processes and functions will enhance corporate agility and support execution excellence. FCC is working to simplify how it does business to make it easy for employees and provide a better customer experience.

In recent years, FCC has made significant progress and it will continue to search for new opportunities as the demands on the corporation change. To achieve this outcome, FCC will pursue the following strategic objectives:

- optimize how FCC operates enterprise-wide
- advance information capabilities
- enhance technology investment

#### Optimize how FCC operates enterprise-wide

FCC continually seeks better ways for employees to perform their work and simplify interactions for customers. The corporation reviews internal processes, procedures and systems to optimize performance.

Two measures have been identified to track progress on this objective. The first measure is an efficiency ratio (administration expense as a percentage of revenue) to measure how well resources are used to generate income.

The second measure is the easy to do business index. Five drivers from the annual employee engagement survey – co-workers, physical work environment, resources, work processes and work tasks – are used to measure how easy it is for employees to do business. Employees are often in the best place to detect inefficient processes and policies that create extra work and unnecessary costs. FCC's target for this measure is greater than the average of the Platinum and Gold employers.

Three initiative have been identified to achieve this objective:

- improve productivity in FCC's key processes

- simplify and consolidate FCC's system architecture
- implement the financial systems strategy

**Improve productivity in FCC's key processes**
Analysis identified some inefficiencies within workflow processes between teams and with outside partners. Improving lending process workflow issues is critical to managing risk and ensuring FCC delivers a great customer experience. For the most part, FCC is maintaining this standard of customer service, however, it is only achieved with an enormous amount of effort. In 2016-17, FCC will investigate workflow solutions aimed at improving the efficiency of its lending process, which will allow FCC employees to focus on higher value work to serve customers and the industry.

**Simplify and consolidate FCC's system architecture**
FCC currently supports multiple systems that require a considerable amount of resource, effort and capacity to support. From an end-user perspective, having to leverage multiple systems is inefficient. The more complex a system architecture is, the more challenging it becomes to maintaining a secure operating environment. There are several risks associated with having to store data in multiple systems (e.g. creates several sources of the "truth"). A strategy to identify the future state approach will be developed in 2016-17.

**Implement the financial systems strategy**
This initiative will provide employees with up-to-date, supported systems to optimize the delivery of their work, providing more time for deeper analysis and efficient processes. Confidence in the data and processes will allow Finance to take a more proactive role and provide key insights to their internal partners.

Success of the overall program is defined as achieving a holistic approach to financial processes, reporting and treasury activities that supports integration, analysis, and efficiency. Each project within the program will have its own specific deliverables and success criteria defined.

By April 1, 2018, FCC needs to redesign its allowance for credit loss models to reflect expected losses versus the current incurred loss model. The new models must also assess the change in credit risk since the origination of the loan. Changes will also be made to FCC's financial statements to reflect new reporting requirements. These changes will need to be enabled through systems.

### Advance information capabilities

Further developing corporate information management practices will help FCC become more efficient and effective. FCC has identified a risk that poor data quality or data systems may impact decision making. To mitigate this risk, FCC will focus on ensuring the right information is readily available to support informed decision-making by employees. Employees will spend less time creating, storing and searching for information. FCC will dispose of redundant and outdated information, which will reduce the risk of information security breaches as well as information storage and management costs.

An initiative to mature information and data management has been identified to help advance this objective.

Currently there is no measure identified for this objective.

**Mature information and data management**
FCC plans to implement the foundational elements of a collaboration, mobility and cloud computing strategy. Information and data governance and management practices will continue to be developed and implemented as new business processes, systems architectures and individual applications are established. FCC complies with the federal *Access to Information Act* and *Privacy Act* and will continue to update policy and compliance controls regarding information privacy and security. There will be a focus on providing access to customer and

employee information on a need-to-know basis only. Increased emphasis will be placed on reducing the possibility of information security breaches through technology upgrades and education.

**Define and implement a digital strategy**
During 2015-16, FCC conducted market research across its business lines to validate the importance of great customer relationship. The result indicated that great customer relationships are the primary reason that customers choose FCC. However, some areas for improvement have been identified to better meet customers' needs. These include making it easy for customer to do business with FCC and improving FCC's online presence and mobile services. Work on the next FCC experience over 2016-17 will focus on meeting the needs of each customer segment.

### Enhance technology investment

To achieve excellence, it is important to keep up with technology. Technology is essential to every business, even those that aren't considered technology companies. Two risks identified by FCC are that technology platforms evolve more rapidly than can be sustained by FCC, and FCC is unable to invest in its digital platform at a level to meet rapidly changing customer expectations. This objective and supporting initiative will help address these risks.

It is important to invest in FCC's digital platform at a level to meet rapidly changing customer expectations. Investment in technology will enable agility, flexibility, responsiveness and security in technology platforms. As well, system upgrades and maintenance become part of ongoing and frequent releases, and therefore less of an event from a change perspective for employees.

FCC will define its technology strategy and lifecycle to help achieve this objective.

Currently there is no measure identified for this objective.

**Define technology strategy and lifecycle**
FCC will develop principles and guidelines for managing our investment in technology solutions. Well maintained systems reduce security gaps, maintenance costs and increase agility. Defining the principals as to how FCC will manage system lifecycles going forward and creating a holistic view of FCC's needs and industry offerings will help guide future systems.

### 5.3.4 Effective ERM

| Effective ERM - How we protect FCC and great customer relationships | | | | | | |
|---|---|---|---|---|---|---|
| Strategic objective | Measures | 2016-17 plan | 2017-18 plan | 2018-19 plan | 2019-20 plan | 2020-21 plan |
| **Sustain and integrate governance, risk appetite and culture** | ERM maturity measure | Greater than 3.5 | Greater than 3.5 | Greater than 3.5 | Greater than 3.5 | Greater than 3.5 |
| | **Further integrate enterprise risk management practices** | | | | | |
| **Optimize enterprise risk tools and processes** | Investigating new measures | | | | | |
| | **Evolve risk management tools** | | | | | |
| | **Mature enterprise security** | | | | | |

The critical outcome that FCC is striving to attain for this theme is:

*In 2025, sound risk management ensures ongoing viability for FCC and protects great customer relationships. FCC has risk management processes and practices that are reflective of its mandate and consistent with a federally regulated financial institution. FCC stays within its risk appetite and tolerances and maintains an appropriate level of capital.*

By understanding and managing its most significant risks, FCC is better able to fulfil its mandate and public policy role, create value for its customers and protect its long-term business interests. In addition, a strong risk management foundation creates agility, builds trust in information and positions FCC well when opportunities arise.

FCC will pursue the following five-year strategic objectives to achieve this outcome:

- sustain and integrate governance, risk appetite and culture
- optimize enterprise risk tools and processes

#### Sustain and integrate governance, risk appetite and culture

Through risk frameworks, aligned leadership and skilled employees, business opportunities and risk events can be understood, assessed against the risk appetite, and action taken to achieve the targeted risk exposure in a right-sized way. Risk management is integrated to a broader governance strategy designed to maximize business performance through efficient and effective risk-taking and decision-making behavior. FCC understands its risk appetite by risk category, embraces the three lines of defence, and reflects those elements in its organizational and role design and incentive structures.

FCC has adopted KPMG's ERM maturity measure to gauge progress on this objective. The measure is based on a maturity model that indicates how mature FCC's ERM practices are in the following five areas: risk governance, risk assessment, risk quantification, risk monitoring and reporting, and risk and control optimization. The measure uses a five-point scale where a measure of 1.0 is considered basic (in compliance), 3.0 is mature (a management process) and 5.0 is advanced (a strategic tool). FCC's long-term target is to increase maturity to a level that reflects its size, complexity and unique mandate.

One initiative has been identified to further this objective.

**Further integrate enterprise risk management practices**

FCC will execute tactics to further integrate appropriate enterprise risk management (ERM) practices into organizational strategies, governance, processes and job role accountabilities. This will include addressing

performance gaps and clarifying risk appetite perceptions identified in a recent employee survey concerning the integration of risk management within FCC's culture.

The envisioned scope is to:

- Implement a strategy to build a strong and integrated risk culture, where employees clearly understand their role in managing risk
- Continue implementation of operational risk management, including the execution of risk and control self-assessments
- Research and implement accordingly a loan replication and review function
- Enhance ERM integration within FCC's strategic planning and execution processes
- Mature risk-based measurement and reporting capabilities

### Optimize enterprise risk tools and processes

FCC will optimize enterprise risk tools and processes to effectively and consistently assess, quantify and aggregate risk. This will enable employees to seize risk-taking opportunities in an efficient way while effectively and consistently managing the inherent risks - credit, strategic and operational.

Two initiatives have been identified to progress this objective:

- Evolve risk management tools
- Mature enterprise security

Currently there is no measure identified for this objective.

**Evolve risk management tools**
Replace the existing Special Credit non-integrated system (NRS) with a tool that enables employees to reliably manage accounts and deliver accurate statements and information to customers and other corporate processes such as the allowance for loan loss and future loss and incident reporting processes.

Develop an implementation plan based on an approved business use strategy for borrower risk ratings. This plan will augment existing practices for tailoring assigned risk ratings, which will contribute to more accurate ratings and pricing efficiencies.

Move toward enabling self-assessment of high-level processes by providing standardized tools. Standardized tools will support right-sized execution and enable efficient aggregation and reporting.

**Mature enterprise security**
The overall aim is to mature FCC enterprise security capabilities while keeping a balance between business enablement and risk management. This will be accomplished by implementing and/or enhancing enterprise security services, ensuring consistent and repeatable processes, increasing awareness and education and assessing trends in security technology and the environment so that FCC can proactively position itself to be responsive and effective.

Enterprise Security Strategy objectives will be executed consistent with the Board-approved Enterprise Risk Management and Operational Risk Management policies and reflect FCC's risk appetite. The objectives will also be executed consistent with Treasury Board Secretariat government security policy practices as well as international security standards.

The primary focus will be around achieving and maintaining FCC's defensible position.

### 5.3.5 High-performance culture

| High-performance culture - How we work together to achieve great customer relationships | | | | | | |
|---|---|---|---|---|---|---|
| Strategic objective | Measures | 2016-17 plan | 2017-18 plan | 2018-19 plan | 2019-20 plan | 2020-21 plan |
| **Deepen culture of 100% accountability and committed partnerships and build great leaders** | Leadership index: subset of employee engagement survey data with respect to leadership indicators | Greater than the average of the Platinum and Gold employers | Greater than the average of the Platinum and Gold employers | Greater than the average of the Platinum and Gold employers | Greater than the average of the Platinum and Gold employers | Greater than the average of the Platinum and Gold employers |
| | Employee engagement | Greater than the average of the Platinum and Gold employers | Greater than the average of the Platinum and Gold employers | Greater than the average of the Platinum and Gold employers | Greater than the average of the Platinum and Gold employers | Greater than the average of the Platinum and Gold employers |
| | Employee experience index: subset of employee engagement survey data with respect to employee experience indicators | Greater than the average of the Platinum and Gold employers | Greater than the average of the Platinum and Gold employers | Greater than the average of the Platinum and Gold employers | Greater than the average of the Platinum and Gold employers | Greater than the average of the Platinum and Gold employers |
| | **Update and execute the leadership and culture strategy** | | | | | |
| **Strengthen workforce management** | Diversity measure | Hire 16 new diversity candidates from the designated groups where we have gaps | Hire 16 new diversity candidates from the designated groups where we have gaps | Hire 16 new diversity candidates from the designated groups where we have gaps | Hire 16 new diversity candidates from the designated groups where we have gaps | Hire 16 new diversity candidates from the designated groups where we have gaps |
| | **Review the employee experience infrastructure** | | | | | |
| | **Review the diversity strategy** | | | | | |
| **Create a continuous learning environment** | **Develop and implement a comprehensive employee learning strategy** | | | | | |

The critical outcome that FCC is striving to attain for this theme is:

*In 2025, FCC is sought out by prospective employees as a highly desirable place to work. Employees come to FCC because of the corporation's outstanding culture and reputation. They stay because the work environment is everything they heard: meaningful work coupled with high expectations that are supported by an unparalleled ability to learn and grow as a professional, and a team environment that is conducive to providing an exceptional customer experience. Customers feel it and appreciate it.*

FCC strives to be an employer of choice. For more than a decade, FCC has been featured on the Best Employers in Canada list based on its results from the Aon Hewitt employee engagement survey. FCC believes having a great employee experience helps attract and retain high-performing employees with the skills and attitudes required to meet customers' needs.

Aon Hewitt defines engagement as a state of emotional and intellectual commitment to the organization. Engaged employees are more likely to say good things about their employer, stay with the organization over the long term and give the discretionary effort needed to achieve great results.

Research shows that an engaged workforce results in a better customer experience. This is why it is important for FCC to measure and manage the overall employee experience. When FCC asks employees to provide input on their level of engagement, this leads to discussions and actions that may directly address employee

concerns and opportunities for improvement in the employee and customer experience.
FCC will pursue the following objectives to achieve this outcome:

- deepen the culture of 100% accountability and committed partnership, and build great leaders
- strengthen workforce management
- create a continuous learning environment

### Deepen culture of 100% accountability and committed partnership, and build great leaders

FCC's culture defines how employees work together. It sets FCC apart as an excellent place to work and to do business. FCC's culture is based on the principles of 100% accountability and working together as committed partners. FCC's 10 cultural practices outline how employees are expected to behave at work each day in order to deliver outstanding results. The cultural practices are available under About FCC on FCC's website.

FCC's culture is the foundation of its overall employee experience. To measure its performance on creating the desired employee experience, FCC will continue to monitor and analyze employee engagement and sub-indices of the employee engagement results that measures how employees feel about their workplace environment and their relationship with their leaders.

Leaders at FCC inspire employees to be passionate about FCC's customers and the business of agriculture. They coach teams to achieve outstanding results and they are authentic and 100% accountable. With an eye on the big picture and a commitment to employee engagement, leaders partner with employees to find new and better ways to make FCC successful in order to benefit our customers and our industry

FCC believes that every employee deserves a great leader. To support leaders in delivering this expectation, FCC has a leadership development program for all leaders. It is comprised of New Manager Essentials; Leadership Transformation Program; a leadership objective for all leaders; and supporting leadership principles and competencies.

**Update and execute leadership and culture strategy**
To continue to raise the bar on FCC's leadership effectiveness and our commitment to the culture, the corporation will seek to improve leadership development programs and continuously look for ways to reinforce the desired culture. In 2016-17, FCC's Leadership and Culture strategy will be implemented with an annual review to ensure relevance and currency.

### Strengthen workforce management

Workforce management is a combination of workforce planning; diversity and employment equity planning; Official Languages obligations; and the overall employee experience.

Annually, in conjunction with strategic planning, FCC leaders engage in a comprehensive workforce planning exercise. This process enables them to review and analyze workforce trends based on demographic and skill-based data provided to them. This analysis then forms the basis of divisional and corporate workforce plans. Integrated into the workforce plan are considerations for divisional and organizational diversity plans; succession and talent review plans; and engagement action plans.

In this area, two initiatives have been identified for upcoming year:

- review the employee experience infrastructure
- review the diversity strategy

**Review the employee experience infrastructure**
The employee value proposition, which outlines FCC's commitment to its employees, and its expected commitment from employees is being reviewed. Additionally, the Employee Experience Committee (that governs employee

experience and learning) will be reviewed and re-established as required. FCC will ensure that the employee value proposition is relevant, resonates, and is well communicated and understood by all employees and it will ensure that FCC has a foundation to align its HR related policies and programs.

**Review the diversity strategy**
FCC is subject to the *Employment Equity Act*. The purpose of this initiative is to review FCC's current strategy and recommend new tactics to enable FCC to achieve a representative workforce over a reasonable period of time. Not only is this strategy aimed at ensuring compliance under the *Employment Equity Act*, it is also intended to elevate FCC's attractiveness as an employer in the eyes of diversity candidates.

### Create a continuous learning environment

FCC's learning infrastructure supports knowledge workers with a focus on agriculture and finance knowledge, being agile learners and having learning programs, methods and delivery that are current and focused on business and user needs creating a continuous learning environment.

In order to ensure that employees keep pace with an increasingly sophisticated marketplace, FCC will assess and evaluate its learning programs, infrastructure, tools and process for learning ensuring they align with customer needs and expectations.

**Develop and implement a comprehensive employee learning strategy**
FCC is taking steps to create and sustain a workforce that is supported in the knowledge, practices and tools required to enable FCC to fulfil its higher purpose.

FCC operates in a rapidly changing environment where customers are becoming increasingly sophisticated and advanced in their business operations and are experiencing quickly evolving needs for financial solutions and advice. FCC's lending and risk management practices are evolving and the corporation needs to be nimble with respect to employee learning, developing competence, and developing confidence. Employees' ability to successfully adapt to their own changing operating environment is dependent upon their ability to absorb and implement the necessary new skills with confidence in a timely manner.

Employees must be supported in these changes and this is dependent upon FCC's ability to design, develop and deliver learning to employees quickly and effectively, ensuring that learning is embedded and sustained in everyday work.

This initiative will include a complete review of employee learning, including:

- Learning approach and strategy
- Infrastructure
- Systems, processes and tools
- Programs
- Governance, including ownership and ongoing maintenance

# 6.0 | Financial plan

FCC is a self-sustaining Crown corporation, projecting growth and continued viability through sound financial and risk management practices. As discussed in section 5.3, strategic themes support the vision and mission. These themes and the corresponding strategic objectives form the basis for the financial plan. All other sections of the corporate plan form an integral part of the financial plan and should be read in full to obtain a comprehensive understanding of the projected financial results.

The financial plan explains the projected financial results and the major underlying assumptions used in the projections. The results demonstrate achievement towards the financial objectives through profitable portfolio growth and efficiency. The financial plan for 2016-17 to 2020-21 is presented in the following sections:

Operating budget
Discussion of the 2015-16 forecast versus 2014-15 actual, prior plan and 2016-17 financial plan
Capital budget

The financial plan and key assumptions reflect FCC's outlook on the Canadian agriculture sector as outlined in section 4.0. Overall, the outlook for the agriculture industry in Canada is positive. The slower appreciation in farmland values resulting from tighter margins for grains and oilseeds operations and slowly increasing interest rates will reduce the rate of growth in the farm debt market, resulting in continued lower levels of portfolio growth for FCC. The assumption of continued profitability and slowly increasing interest rates will minimize changes in FCC's projected risk levels.

**Caution regarding forward-looking statements**
The corporate plan includes forward-looking financial information based on certain assumptions that reflect management's planned course of action with the most probable set of economic conditions. By their nature, assumptions are subject to inherent risks and uncertainties. There is significant risk that actual results may vary, and that the differences may be material. Some factors that could cause such differences include changes in general economic and market conditions, including but not limited to interest rates.

## Sensitivity analysis

FCC employs a financial model to determine the five-year plan targets based on inputs received from various divisions throughout the corporation. The model has been tested and proven to generate consistent accurate projections based on the data inputs. The input assumptions for this financial plan are consistent with historical experience and are approved by management and the Board of Directors.

In addition to the financial plan projections provided in this document, the corporation runs sensitivity and scenario analyses. These analyses assist in financial planning, risk management and resource allocation by testing financial strength across a range of financial plan assumptions. This information assists in ensuring that the corporation is making prudent financial and risk management decisions over the long term, including situations where the financial results may be less favourable than the projections provided in this document.

The table below shows the impact of changes to key variables on projected net income. The table provides the impact on net income for 2016-17 for each variable.

| Major drivers ($ millions) | Change | 2017 Plan |
|---|---|---|
| Loan disbursements* | +/- 10%/year | +/- 11.7 |
| New lending margins** | +/- 10 bps/year | +/- 5.2 |
| New lending mix (F/V) | +/-10% fixed | +/- (1.1) |
| Interest rate curves** | + 100 bps | + 10.3 |

* assumes that disbursements are made throughout the year.

** bps is basis points

## 6.1 Operating budget

The operating budget provides details of FCC's forecasted revenues and expenses for the fiscal year ended March 31, 2017, and is submitted for Treasury Board approval in accordance with section 123 of the *Financial Administration Act*.

| Fiscal year ending March 31 | 2017 |
|---|---|
| ($ millions) | Plan |
| **Portfolio growth** | |
| Loans receivable | 29,314.0 |
| Loans receivable growth rate (per cent) | 3.7 |
| Net disbursements | 8,693.0 |
| Prepayment rate (per cent) | 5.6 |
| **Profitability** | |
| Net interest income | 982.4 |
| Net interest margin (per cent) | 3.18 |
| **Credit quality** | |
| Impaired loans | 330.8 |
| Provision for credit losses | 67.1 |
| Allowance for credit losses | 234.5 |
| **Performance by non-lending business line** | |
| **Venture capital** | |
| Investments - total capital outstanding | 149.5 |
| Investments - fair market value | 223.3 |
| Co-investment ratio ($ co-invested per FCC $) | 1.5 |
| **FCC Management Software** | |
| Net sales revenue | 2.0 |
| **FCC Insurance** | |
| Insurance premium income | 26.7 |
| Net insurance income | 16.0 |
| **Efficiency** | |
| Administration expenses | 382.8 |
| Efficiency ratio (per cent) | 38.3 |
| **Funding** | |
| Borrowings | 24,895.4 |
| **Capital management** | |
| Total capital | 5,676.2 |
| Total capital ratio | 17.5 |
| Debt to equity | 4.3 |
| **Shareholder return** | |
| Net income | 545.7 |
| Return on equity (per cent) | 9.7 |
| Return on assets (per cent) | 1.8 |
| Dividends | 57.4 |

### 6.1.1 Discussion of 2015-16 forecast versus 2014-15 actual, prior plan and 2016-17 financial plan

#### Portfolio growth

**Loans receivable**

Relative to 2014-15 actual results, the portfolio is forecast to grow by $949.3 million or 3.5% in 2015-16 due to net disbursements of $8,500.0 million. Compared to the 2015-16 plan, the forecast loans receivable of $28,258.4 million is $112.3 million or 0.4% lower. This is due to lower than anticipated net disbursements of $51.5 million and higher principal repayments.

Loans receivable is projected to grow by 3.7%, increasing from $28,258.4 million forecast for 2015-16 to $29,314.0 million in 2016-17. The increase in loans receivable reflects the projected lending through the primary production financing, agribusiness and agri-food financing and Alliances business lines.

**Net disbursements**

The 2015-16 forecast net disbursements are $54.6 million lower than levels experienced in 2014-15 and $51.5 million lower than the 2015-16 plan. Healthy competition continues in the marketplace and FCC is projecting portfolio growth that is only slightly below the expected farm debt growth.

Net disbursements are projected to increase by $193.0 million from the forecast level of $8,500.0 million in 2015-16 to $8,693.0 million in 2016-17. Primary production financing, lending to agribusiness and agri-food, and Alliance disbursements are expected to increase by $13.4 million, $69.6 million and $110.0 million respectively. Overall, lending to primary producers represents 85.9% of total net disbursements in 2016-17.

#### Profitability

**Net interest income and net interest margin**

Net interest income is required to cover administration expenses and the risk of credit losses, as well as to yield a sufficient profit to enable the corporation to remain financially viable and fulfil its role in supporting agriculture.

The 2015-16 net interest income forecast of $988.1 million is $49.9 million higher than 2014-15 actual results due to continued growth in the loan portfolio. The 2015-16 net interest income forecast is $50.7 million higher than the 2015-16 plan due to a lower interest rate environment, resulting in lower funding costs offset by lower interest revenue.

The net interest margin is forecasted at 3.28%, which is lower than the prior year actual of 3.33% and higher than the 2015-16 plan of 3.17%. This decrease from prior year is being driven primarily by lower lending margins on new disbursements and a continued low interest rate environment, which is compressing the interest rate spread. The favourable variance to plan is due to lower funding costs.

Net interest income is expected to slightly decrease from a $988.1 million forecast for 2015-16 to $982.4 million for 2016-17. This is due to a decrease in the net interest margin from 3.28% to 3.18%, offset by 3.7% growth in loans receivable. The decrease in net interest margin is due to fixed earning assets re-pricing in a lower interest rate environment.

## Credit quality

### Impaired loans

Impaired loans of $319.9 million in the 2015-16 forecast are $27.1 million higher than 2014-15 actual results. The increase is due to growth in the loan portfolio coupled with an increase in impaired loans as a percentage of loans receivable. The 2015-16 forecast is lower than the 2015-16 planned amount of $368.8 million due to a lower portfolio balance.

Impaired loans are expected to be $330.8 million in 2016-17, an increase of $10.9 million over the 2015-16 forecast of $319.9 million. This increase is due to a larger portfolio in 2016-17 compared to 2015-16.

### Allowance for credit losses

The allowance for credit losses represents management's best estimate of incurred losses in the portfolio of loans and leases.

The 2015-16 forecast allowance for credit losses of $226.1 million is higher than the 2014-15 actual allowance of $206.3 million. FCC's allowance for credit losses is forecasted to increase by $19.8 million in 2015-16 over 2014-15 primarily due to growth in loans receivable. As a percentage of ending loans receivable, the allowance is forecasted to be 0.8% in 2015-16.

The allowance for credit losses is projected to grow from the forecast of $226.1 million in 2015-16 to $234.5 million at the end of 2016-17. The allowance as a percentage of ending loans receivable is projected to remain flat at 0.8% as the overall risk in the portfolio is not anticipated to change. The increase is being driven by the growth in loans receivable.

### Provision for credit losses

Once management determines the allowance for credit losses and write-offs, the provision for credit losses is charged against net income by an amount necessary to bring the allowance for credit losses to the projected 0.8% of ending loans receivable.

To bring the allowance to the appropriate level in 2015-16, the provision for credit losses is forecasted to be $61.8 million, which is higher than the recovery in 2014-15 of $281.4 million and lower than the provision for credit losses in the 2015-16 plan of $68.1 million. The increase from the prior year's recovery in 2014-15 is due to the change in estimate for credit losses being implemented in 2014-15. The decrease from the 2015-16 plan is due to the lower loans receivable balance and lower overall risk.

In 2016-17, the required provision is projected to be $67.1 million due to an increase in the projected size of the portfolio. The allowance as a percentage of ending loans receivable is anticipated to remain flat at 0.8%.

## Performance by non-lending business lines

### Venture capital

FCC Ventures continues to address the need for alternative financing in the agriculture industry. At the end of 2015-16, the corporation is forecasting $112.3 million in capital outstanding. In addition, every $1.00 invested by FCC is expected to attract $1.50 from co-investors.

Total capital outstanding is expected to increase slightly to $149.5 million at the end of 2016-17. This anticipates new investments of $37.3 million, offset by repayments and divestitures.

The fair value of the venture capital investments is projected to increase from $167.4 million in 2015-16 to $223.3 million in 2016-17. This reflects the plan assumptions with respect to the new investments and increases in the fair value of existing investments.

### FCC Management Software

FCC Management Software is focused on developing, promoting and improving farm management software for the Canadian agriculture industry by providing valuable solutions to farmers that will help ensure their success and viability. The forecasted net sales revenue of $2.0 million is slightly higher than to 2014-15 actual results and slightly lower than the 2015-16 plan of $2.4 million. In 2016-17, net sales revenue is anticipated to remain flat at $2.0 million.

### FCC Insurance

FCC offers creditor life and accident insurance, providing protection for customers, their families and their businesses. Insurance premium revenue is forecasted to be $25.7 million in 2015-16, which is $1.7 million higher than 2014-15 actual results and is $0.6 million higher than the 2015-16 plan. The increase in net insurance income in 2016-17 is primarily driven by an assumption of reduced claims expense.

In 2016-17, insurance premium revenue is planned to be $26.7 million, representing an increase of $1.0 million from forecast levels due to growth in the portfolio. Net insurance revenue after taking into account claims paid, is projected at $16.0 million in 2016-17.

## Efficiency

### Administration expenses

A key element of continued financial viability is prudent cost management and operational efficiency balanced against the requirements of a growing enterprise. The corporation will continue its track record of efficiency and strong financial performance, and conduct itself in a manner that is mindful of the climate of fiscal constraint. FCC will continue to focus on delivering services in an efficient manner and optimizing how it operates enterprise-wide. Initiatives are planned for 2016-17 to optimize key systems and processes, advance information and data management capabilities, and enhance technology investment (see section 5.3.3 Execution excellence).

In 2015-16, administration expenses are forecasted to be $372.5 million. This represents an increase of $33.4 million from 2014-15 actual expenses of $339.1 million due to increases in personnel expense and core lending systems and processes, partially offset by a decrease in Enterprise Risk Management program expenses.

In 2016-17, administration expenses are projected to be $382.8 million, a slight increase from the 2015-16 forecast of $372.5 million due to increases in facilities costs, partially offset by a decrease in Enterprise Risk Management program expenses.

**Efficiency ratio**
The forecast efficiency ratio of 37.1% is higher than 2014-15 actual ratio of 35.6% due to higher administration expenses and offset by higher net interest income. The 2015-16 forecast is lower than 2015-16 plan of 38.5% as a result of higher forecasted net interest income.

As a result of the slight growth in administration expense and slight decrease in net interest income, the efficiency ratio increases slightly in 2016-17 to 38.3%.

## Funding

**Cash provided by (used in) operating activities**
After adjusting net income for non-cash items, FCC expects to use $314.0 million in support of operating activities in 2015-16. Cash used in operating activities is projected to increase by $153.5 million in 2016-17 to $467.5 million.

**Cash provided by (used in) investing activities**
Cash used in investing activities is anticipated to be $97.2 million in 2016-17, an increase of $43.4 million from the $53.8 million in the 2015-16 forecast. This change is primarily driven by a decrease in proceeds from disposal of venture capital investments.

**Cash provided by (used in) financing activities**
Cash provided by financing activities is projected to decrease from the 2015-16 forecast of $701.0 million to $614.7 million in 2016-17. The decrease is driven primarily due to lower financing requirements related to the required cash and cash equivalent balances.

## Capital management

**Total capital ratio**
The forecasted 2015-16 total capital ratio of 16.6% is higher than the 2014-15 actual of 15.6%. In 2016-17, the total capital ratio increases further to 17.5% due to the growth in capital outpacing the growth in the portfolio. The total capital ratio will increase if total capital increases at a higher rate than risk-weighted assets. This ratio is projected to remain higher than FCC's targeted total capital ratio of 15.0%. FCC's capital management goal is to maintain adequate capital to ensure the ongoing viability of FCC's business and to support anticipated capital growth and strategic investment.

**Debt to equity**
The forecasted debt-to-equity ratio of 4.6 to 1 is lower than the 2014-15 actual of 5.0 to 1, and equal to the 2015-16 plan. In 2016-17, the debt-to-equity ratio decreases further to 4.3 to 1. This measure's continued decline reflects funding a larger portion of the portfolio through equity versus debt. This ratio is projected to remain well below the maximum 12 to 1 debt to equity ratio set under the *Farm Credit Canada Act*.

## Shareholder return

### Net income

Net income is projected to reach $579.4 million in 2015-16, which is $328.7 million lower than 2014-15 actual and $41.5 million higher than the 2015-16 plan. Net income in 2014-15 was impacted by a large recovery in provision for credit losses due to a one-time adjustment related to a change in credit loss estimates. The forecasted increase from the 2015-16 plan is driven by higher net interest income and lower provision for credit losses.

In 2016-17, net income is projected to decrease to $545.7 million from the 2015-16 forecast of $579.4 million. The projected net income in 2016-17 is due to lower fair value adjustment, lower net interest income, higher provision and higher administration expense.

### Return on equity

Return on equity measures the efficiency at generating income relative to equity. In 2015-16, return on equity is forecast at 11.4%, which is lower than the 2014-15 actual of 20.4%. The decrease is primarily due to the large recovery in provision for credit losses in 2014-15 and higher administration expense, partly offset by higher net interest income. The forecast is higher than the return on equity projected in the 2015-16 plan of 10.5%. This increase is due to higher net income as discussed above.

In 2016-17, return on equity is projected to decrease from 11.4% to 9.7% as net income decreases.

### Return on assets

Return on assets measures the use of assets to generate income. The 2015-16 projected return on assets of 2.0% is lower than the 2014-15 actual of 3.2% due to the large recovery in the provision for credit losses experienced in 2014-15. The 2015-16 forecast of 2.0% is higher than the 2015-16 plan of 1.8% due to decreased net income discussed above. In 2016-17, the return on assets is projected to decrease slightly to 1.8%.

### Dividends

The corporation pays dividends to its shareholder, the Government of Canada, at the discretion of the FCC Board of Directors. The projections are based on the maximum provided under the current policy, as approved by the Board, which provides for an annual dividend calculated as an amount up to 10% of net income (attributable to shareholder of parent entity) for the prior fiscal year. The Department of Finance is in the process of developing a common capital and dividend framework for financial Crown corporations, which is anticipated to align with FCC's capital management policy and process. The outcome of this work will change how FCC determines dividend payment amounts.

The 2015-16 forecast includes a dividend of $90.4 million based on 10% of net income, which is lower than the prior year actual of $126.1 million. The prior year was based on a Board-approved, one-time exception to policy when the dividend was paid, based on 20% of net income. The 2015-16 forecast is higher than the 2015-16 plan of $81.6 million due to higher than planned net income in 2014-15. Dividends are expected to decrease in 2016-17 to $57.4 million due to lower prior year net income.

## 6.2 Capital budget

The 2016-17 capital budget is submitted for Treasury Board approval in accordance with section 124 of the *Financial Administration Act*.

Capital spending is expected to be $59.0 million in 2016-17, which is an increase from the 2014-15 actual results of $47.8 million and a decrease from the 2015-16 forecast of $73.5 million. FCC's capital projections primarily consist of agricultural equipment financing to customers under operating leases, as well as purchases relating to leasehold improvements, regular furniture, fixture and equipment replacements, and computer hardware and software purchases.

In addition to equipment under operating leases, significant capital expenditures in 2016-17 include purchases related to computer software and leasehold improvements. These expenditures are being used to support continued business growth, further investment in enterprise risk management and consolidation of FCC's corporate office.

Farm Credit Canada
Consolidated Balance Sheet
2017-21 Corporate Plan
(millions of dollars)

| As at March 31 | 2015 Actuals | 2016 Forecast | 2017 Plan |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | $ 1,166.8 | $ 1,500.0 | $ 1,550.0 |
| Accounts receivable | 23.3 | 31.0 | 29.6 |
| Derivative financial assets | 58.8 | 47.9 | 38.4 |
| | 1,248.9 | 1,578.9 | 1,618.0 |
| Loans receivable | 27,309.1 | 28,258.4 | 29,314.0 |
| Allowance for credit losses | 206.3 | 226.1 | 234.5 |
| Loans receivable (net) | 27,102.8 | 28,032.3 | 29,079.5 |
| Finance leases receivable (net) | 15.5 | 18.6 | 19.0 |
| Venture capital investments | 179.8 | 167.4 | 223.3 |
| | 27,298.1 | 28,218.3 | 29,321.8 |
| Equipment and leasehold improvements | 17.2 | 22.1 | 25.2 |
| Computer software | 25.4 | 39.6 | 35.4 |
| Equipment under operating leases | 70.2 | 82.2 | 91.7 |
| Post-employment benefit assets | 0.0 | 41.0 | 63.8 |
| Other assets | 20.7 | 22.4 | 24.2 |
| | 133.5 | 207.3 | 240.3 |
| Total assets | $ 28,680.5 | $ 30,004.5 | $ 31,180.1 |
| **Liabilities** | | | |
| Accounts payable and accrued liabilities | $ 78.0 | $ 84.5 | $ 91.6 |
| **Borrowings** | | | |
| Short-term debt | 13,709.3 | 11,379.7 | 8,694.6 |
| Long-term debt | 9,722.6 | 12,843.6 | 16,200.8 |
| | 23,431.9 | 24,223.3 | 24,895.4 |
| Transition loan liability | 96.3 | 124.7 | 124.7 |
| Post-employment benefit liabilities | 143.6 | 111.2 | 118.7 |
| Other liabilities | 18.9 | 19.9 | 21.8 |
| | 258.8 | 255.8 | 265.2 |
| Total liabilities | 23,768.7 | 24,563.6 | 25,252.2 |
| **Equity** | | | |
| Contributed surplus | 547.7 | 547.7 | 547.7 |
| Retained earnings | 4,175.9 | 4,734.4 | 5,227.7 |
| Accumulated other comprehensive income | 131.0 | 107.7 | 86.0 |
| Equity attributable to shareholder of parent entity | 4,854.6 | 5,389.8 | 5,861.4 |
| Non-controlling interest in structured entity | 57.2 | 51.1 | 66.5 |
| | 4,911.8 | 5,440.9 | 5,927.9 |
| Total liabilities and equity | $ 28,680.5 | $ 30,004.5 | $ 31,180.1 |

Farm Credit Canada
Consolidated Statement of Operations
2017-21 Corporate Plan
(millions of dollars)

| Fiscal year ending March 31 | 2015 Actuals | 2016 Forecast | 2017 Plan |
|---|---|---|---|
| Loans and leases | $ 1,188.7 | $ 1,150.5 | $ 1,136.6 $ |
| Investments | 18.4 | 15.2 | 21.0 |
| Total interest income | 1,207.1 | 1,165.7 | 1,157.6 |
| Short-term debt | 53.3 | 26.7 | 17.1 |
| Long-term debt | 215.6 | 150.9 | 158.1 |
| Total interest expense | 268.9 | 177.6 | 175.2 |
| **Net interest income** | 938.2 | 988.1 | 982.4 |
| Provision for credit losses | (281.4) | 61.8 | 67.1 |
| **Net interest income after provision for credit losses** | 1,219.6 | 926.3 | 915.3 |
| Insurance income | | | |
| Premiums | 24.0 | 25.7 | 26.7 |
| Claims expense | (10.6) | (10.4) | (10.7) |
| | 13.4 | 15.3 | 16.0 |
| Other income | 0.7 | 0.9 | 0.7 |
| **Total other income** | 14.1 | 16.2 | 16.7 |
| Net interest income and non-interest income | 1,233.7 | 942.5 | 932.0 |
| Administration expenses | 339.1 | 372.5 | 382.8 |
| **Income before fair value adjustment** | 894.6 | 570.0 | 549.2 |
| Fair value adjustment | 13.5 | 9.4 | (3.5) |
| **Net income** | **$ 908.1** | **$ 579.4** | **$ 545.7 $** |
| **Net income attributable to:** | | | |
| Shareholder of parent entity | $ 903.8 | $ 574.1 | $ 542.1 $ |
| Non-controlling interest in structured entity | 4.3 | 5.3 | 3.6 |

Farm Credit Canada
Consolidated Statement of Comprehensive Income
2017-21 Corporate Plan
(millions of dollars)

| Fiscal year ending March 31 | 2015 Actuals | 2016 Forecast | 2017 Plan |
|---|---|---|---|
| **Net income** | $ 908.1 | $ 579.4 | $ 545.7 |
| **Other comprehensive income** | | | |
| **Items that are or may be reclassified to net income** | | | |
| Net (losses) gains on derivatives designated as cash flow hedges | 12.5 | 0.0 | 0.0 |
| Transfer of net realized gains on derivatives designated as cash flow hedges to net income | (22.9) | (23.3) | (21.7) |
| | (10.4) | (23.3) | (21.7) |
| **Item that will never be reclassified to net income** | | | |
| Remeasurements of post-employment benefit liability | (78.6) | 74.8 | 8.6 |
| **Total other comprehensive income (loss)** | **(89.0)** | **51.5** | **(13.1)** |
| **Total comprehensive income** | **$ 819.1** | **$ 630.9** | **$ 532.6** |
| | | | |
| **Total comprehensive income (loss) attributable to:** | | | |
| Shareholder of parent entity | $ 814.8 | $ 625.6 | $ 529.0 |
| Non-controlling interest in structured entity | 4.3 | 5.3 | 3.6 |

Farm Credit Canada
Consolidated Statement of Changes in Shareholder's Equity
2017-21 Corporate Plan
(millions of dollars)

| Fiscal year ending March 31 | 2015 Actuals | 2016 Forecast | 2017 Plan |
|---|---|---|---|
| **Contributed surplus** | | | |
| Balance, end of year | $ 547.7 | $ 547.7 | $ 547.7 |
| **Retained earnings** | | | |
| Balance, beginning of year | 3,476.8 | 4,175.9 | 4,734.4 |
| Net income | 903.8 | 574.1 | 542.1 |
| Other comprehensive income | (78.6) | 74.8 | 8.6 |
| Dividends paid | (126.1) | (90.4) | (57.4) |
| Balance, end of year | 4,175.9 | 4,734.4 | 5,227.7 |
| **Accumulated other comprehensive income** | | | |
| Balance, beginning of year | 141.4 | 131.0 | 107.7 |
| Net losses on derivatives designated as cash flow hedges | (10.4) | (23.3) | (21.7) |
| Balance, end of year | 131.0 | 107.7 | 86.0 |
| **Total equity attributable to parent** | $ 4,854.6 | $ 5,389.8 | $ 5,861.4 |
| **Non-controlling interests in structured entity** | | | |
| Balance, beginning of year | 53.9 | 57.2 | 51.1 |
| Non-controlling interests in structured entity | 4.3 | 5.3 | 3.6 |
| Distributions to/(from) non-controlling interest | (1.0) | (11.4) | 11.8 |
| Balance, end of year | 57.2 | 51.1 | 66.5 |
| **Total** | **$ 4,911.8** | **$ 5,440.9** | **$ 5,927.9** |

Farm Credit Canada
Consolidated Statement of Cash Flows
2017-21 Corporate Plan
(millions of dollars)

| Fiscal year ending March 31 | 2015 Actuals | 2016 Forecast | 2017 Plan |
|---|---|---|---|
| **Operating activities** | | | |
| Net income | $ 908.1 | $ 579.4 | $ 545.7 |
| Adjustments to determine net cash (used in) provided by operating activities: | | | |
| Net interest income | (938.2) | (988.1) | (982.4) |
| Provision for credit losses | (281.4) | 61.8 | 67.1 |
| Fair value adjustment | (13.5) | (9.4) | 3.5 |
| Gain on the sale of venture capital investment in associate | (0.5) | 0.0 | 0.0 |
| Amortization and depreciation | 20.6 | 46.6 | 56.4 |
| Other | (1.5) | 0.0 | 0.0 |
| Net cash outflow from loans receivable | (1,139.8) | (963.6) | (1,106.4) |
| Net cash inflow (outflow) from finance leases receivable | 0.6 | (3.1) | (0.4) |
| Net change in other operating assets and liabilities | 62.5 | 25.6 | (3.7) |
| Interest received | 1,162.1 | 1,114.4 | 1,127.9 |
| Interest paid | (255.6) | (177.6) | (175.2) |
| **Cash used in operating activities** | **(476.5)** | **(314.0)** | **(467.5)** |
| **Investing activities** | | | |
| Net cash inflow from temporary investments | 140.6 | 0.0 | 0.0 |
| Acquisition of venture capital investments | (41.0) | (57.3) | (38.2) |
| Proceeds on disposal and repayment of venture capital investments | 36.4 | 77.0 | 0.0 |
| Capital purchases | (9.8) | (38.7) | (22.7) |
| Purchase of equipment under operating leases net of disposal | (29.0) | (34.8) | (36.3) |
| **Cash provided by (used in) investing activities** | **97.2** | **(53.8)** | **(97.2)** |
| **Financing activities** | | | |
| Long-term debt | 936.3 | 1,186.0 | 1,117.6 |
| Short-term debt | (294.5) | (394.6) | (445.5) |
| Dividends paid | (126.1) | (90.4) | (57.4) |
| **Cash provided by financing activities** | **515.6** | **701.0** | **614.7** |
| Change in cash and cash equivalents | 136.3 | 333.2 | 50.0 |
| Cash and cash equivalents, beginning of year | 1,026.8 | 1,166.8 | 1,500.0 |
| Effects of exchange rate changes on the balances of cash held and due in foreign currencies | 3.7 | 0.0 | 0.0 |
| **Cash and cash equivalents, end of year** | **$ 1,166.8** | **$ 1,500.0** | **$ 1,550.0** |

## 6.3 Borrowing plan summary

To meet its forecasted funding requirements, FCC requests authority from the Minister of Finance to borrow from the Crown Borrowing Framework and capital markets as follows.

i. Short-term financing from the Crown Borrowing Program not exceeding a maximum outstanding of $8.5 billion.

ii. Short-term U.S. dollar financing from domestic money markets not exceeding a maximum outstanding of U.S. $500 million.

iii. Long-term financing from the Crown Borrowing Program not exceeding $14 billion of new issuances.

iv. Up to a maximum of $30 million through an operating line of credit.

Borrowings are used in the normal course of business to finance loans and provide liquidity, as well as for asset-liability management purposes. Interest rates and market conditions can drive changes in customer preferences or interest rate risk exposures on the balance sheet. FCC requires borrowing authorities that provide flexibility and latitude to effectively finance FCC's balance sheet, and manage risk and business requirements.

# 7.0 | Reference information

## 7.1 Products and services

FCC cares about its customers and takes time to listen, learn and understand their businesses. The corporation offers a combination of financing, insurance, management software, information and learning products and services, and focuses on creating extraordinary customer experiences.

### Primary production financing

FCC provides loans tailored to the unique needs of primary producers in the agriculture industry. This includes industries such as crop production, greenhouse production, cattle, hogs, dairy and poultry. FCC employees build relationships with customers to ensure that the right combination of terms, security and payment schedules meet their customers' current and future needs.

### Agribusiness and agri-food financing

FCC provides loans to those who buy from and sell to primary producers, including equipment manufacturers and dealers, input providers and processors along the agriculture value chain. FCC employees offer customized financial solutions to agribusiness and agri-food customers on a foundation of service excellence, industry knowledge and trusted partnerships.

### Financing for equipment, crop inputs and livestock at the point of sale

FCC provides loans and leases to customers at the point of sale through alliance relationships with crop input retailers, livestock marketers and equipment dealers. These convenient finance programs benefit alliance partners and customers.

### FCC Learning

FCC offers management training, information and learning to customers. Live event and online multimedia topics include managing farm finances, human resources, succession planning and others.

FCC offers all producers and agribusiness operators complimentary access to learning events where they can build management skills and experience hands-on training. Employees encourage young farmers to participate in these opportunities.

FCC offers a series of online learning videos, audio podcasts and webinars to help Canadian producers expand their knowledge. The offering is available at fcc.ca.

Introduced in 2014 and continuing with nine new events in 2015-16, FCC's Ag Outlook half-day learning sessions bring together leading industry experts to provide valuable insights into the economy, weather, technology and commodity markets. Held in communities across the country and targeted directly at producers and agribusiness owners, Ag Outlook events complement FCC's Forum speaker series. Since 2006, the Forums have entertained and inspired more than 49,900 Canadians involved in the agriculture industry.

Every week, Canadians receive the latest news, market and economic outlooks through the FCC Express which provides producers with knowledge to help their businesses.

Producers can learn more about farm management strategies by reading AgriSuccess, FCC's bimonthly publication. This national farm management magazine is free and offers tips and insight from industry experts and producers.

### FCC Management Software

FCC offers software designed for Canadian producers. Current software offerings include AgExpert Analyst, Field Manager PRO, Field Manager PRO 360 and Field Manager Commercial.

**AgExpert Analyst** allows customers to track income, expenses, inventory and capital assets, and prepare financial statements, including GST returns. The accounting software is designed specifically for Canadian agriculture and provides reporting features that are relevant to producers.

**Field Manager PRO** is a crop record-keeping and planning system that provides customers with access to their crop production data.

**Field Manager PRO 360** is used to track field records and has geographic information system (GIS) capabilities. With Field Manager PRO 360, producers can access satellite imagery of their farms, do their own mapping and upload and use GIS files from their equipment.

With **Field Manager Commercial**, food processing companies, packing houses and agronomists can track and filter their producers' data. The software saves time, increases reporting accuracy and creates auditable records. The electronic records provide proof of good agronomic practices, and agronomists can use them to gather and sort valuable producer information. As traceability requirements increase, Field Manager Commercial, Field Manager PRO and Field Manager PRO 360 can minimize tracking efforts by managing field records from planning to storage.

### FCC Insurance

FCC offers loan, life and accident insurance tailored to agriculture, allowing customers to protect themselves, their businesses and their families.

### FCC Ventures

FCC Ventures is the corporation's venture capital business line, created to address the need for non-traditional financing in Canada's agriculture industry.

FCC venture capital financing is delivered through various limited partnership funds managed by Avrio Ventures (Avrio Fund I, Avrio Fund II, Avrio Fund III, and Avrio Subordinated Debt Fund).

These funds provide alternative financing arrangements to the agriculture industry in the form of subordinated debt, mezzanine and equity financing.

Avrio Ventures provides services across Canada with offices in Montreal, Toronto and Calgary.

### FCC Online Services

Using FCC Online Services, customers can check their portfolios, request funds from their FCC Credit Line, view their annual loan statements, access various ag knowledge articles, videos and podcasts, locate branch offices, view local weather and review information on Canada's financial market trends and farmland values.

## 7.2 Loans and leasing

### Customized loans

**1-2-3 Grow Loan**
Customers can manage their cash flow with interest-only payments until they get a return on their investment.

**Advancer Loan**
The Advancer Loan is a pre-approved, secured loan with the flexibility to re-advance funds for capital purchases at the borrower's discretion.

**American Currency Loan**
The American Currency Loan is useful to customers who derive revenue in U.S. dollars. The loan allows them to borrow and make payments in U.S. currency.

**Capacity Builder Loan**
Producers may purchase quota or breeding livestock with pre-approved financing for up to 18 months with the option to capitalize interest.

**Cash Flow Optimizer Loan**
This loan offers interest-only payments and allows customers to reinvest funds into other areas of their operations. The borrower chooses when to make principal payments.

**Construction Loan**
Customers may defer their principal payments while they build or expand, with interim financing for up to 18 months on construction projects.

**Energy Loan**
The Energy Loan helps customers convert to renewable energy sources like biogas, geo-thermal, wind or solar power.

**Enviro-Loan**
The Enviro-Loan allows customers to defer principal payments while constructing, improving or expanding their environmental facilities.

**FCC Credit Line**
FCC Credit Line is a revolving, pre-approved loan that borrowers can access at any time for their day-to-day operating expenses.

**Flexi-Loan**
Customers may defer principal payments for up to one year and take advantage of opportunities or ease cash flow during adverse conditions.

**Inventory Financing Loan**
Inventory Financing is a revolving, pre-approved loan for agricultural equipment inventory. It serves as a two-way agreement between FCC and a dealership for the purpose of financing inventory held for resale.

**Performer Loan**
The Performer Loan rewards customers with lower interest rates when their business achieves pre-set financial goals and ratios.

**Spring Break Loan**
The Spring Break Loan provides customers with an opportunity to match their payment schedule to the forestry harvesting season.

**Start Now – Pay Later Loan**
This loan allows customers to manage their cash flow with deferred payments to get their operations up and running.

**Syndicated Loan**
The Syndicated Loan is a loan to a single borrower, structured by a lead manager (or managers) and the borrower. Funds are provided by a group of banks rather than a single lender.

**Transition Loan**
The Transition Loan provides flexibility in the transfer of farm assets by allowing disbursements to be made to the seller over time.

**Young Farmer Loan**
The Young Farmer Loan is available to farmers under the age of 40 to help start or grow their businesses. Key features include no loan processing fees and special interest rates. FCC has made $1.5 billion of financing available through this product.

## Standard loans

**Closed rates**
Closed rates are fixed for the term of the personal property or mortgage loan.

**Fixed rates**
Fixed rates are set for the term of the loan and include a 10% prepayment option.

**Open rates**
Open rates offer the benefit of prepayment without penalty, with a fixed rate for the term of the personal property loan.

**Variable rates**
Variable rates offer maximum flexibility with a rate that floats as interest rates rise and fall. Customers may prepay any amount at any time for personal property loans or open variable rate

mortgage loans. They may also prepay up to 10% at any time for standard variable rate mortgage loans.

### Equipment leases

**FCC Leasing**
Customers may lease new or used equipment at select dealerships and benefit from less investment up front and increased flexibility.

## 7.3 Glossary of terms

**Agribusiness**
Provides inputs to primary producers. Includes fertilizer and chemical dealers, feed processors, and equipment dealers and manufacturers.

**Agri-food**
Processes the outputs of primary producers. Includes food processors, wineries, abattoirs and meat packers.

**Agvocate**
An individual or group that actively promotes agriculture in respectful and meaningful ways. Agvocates believe that agriculture is a modern and dynamic industry with value that needs to be better understood, recognized and advanced among industry stakeholders and the general public.

**Alliances**
Alliances are relationships established by contract between FCC and other agricultural or financial organizations designed to pool talents and offer expanded customer services.

**Allowance for credit losses**
An allowance for credit losses is management's best estimate of credit losses incurred on a loan and lease receivable portfolio. Allowances are accounted for as deductions on the balance sheet from loans and leases receivable, respectively.

**Arrears**
Arrears are all amounts on a loan, including impaired loans that are past due by more than $500.

**Basis point (bps)**
A basis point is a unit that is equal to 1/100 of 1%, and is used when describing applicable interest rates or the yield of an investment (1 bps = 0.01%).

**Corporate social responsibility (CSR)**
CSR refers to a corporation's commitment to operate in an economically, socially and environmentally sustainable manner while recognizing the interests of its stakeholders, including investors, customers, employees, business partners, local communities, the environment and society at large, as defined by Canadian Business for Social Responsibility.

**Counterparty**
A counterparty is the other party involved in a financial transaction, typically another financial institution.

**Counterparty risk**
Counterparty risk is the risk that the counterparty will not be able to meet its financial obligations under the terms of the contract or transaction into which it has entered.

**Crown Borrowing Program**
A Crown Borrowing Program is direct lending provided to the corporation by the federal government.

**Debt-to-equity ratio**
The debt-to-equity ratio is the level of debt expressed as dollars of debt per one dollar of total equity, excluding accumulated other comprehensive income.

**Financial derivative instruments**
A derivative financial instrument is a financial instrument where value is based on and derived from an underlying price, interest rate, exchange rate or price index. The use of derivatives allows for the transfer, modification or reduction of current or expected risks from changes in interest rates and foreign exchange rates. Types of derivative contracts include interest rate swaps, interest rate options, currency swaps and forward contracts.

**Efficiency ratio**
An efficiency ratio is a measure of how well resources are used to generate income calculated as administration expense as a percentage of revenue. Revenue is composed of net interest income, net insurance income and other income.

**Enterprise risk management (ERM)**
ERM is the enterprise-wide application of co-ordinated activities that direct and control an organization with respect to risk.

**Fair value**
Fair value is the amount an independent party would pay to purchase or sell a financial instrument in the marketplace. It can be estimated as the present value of cash flows, adjusted for risk.

**Hedge**
A hedge is a risk management technique used to protect against adverse price, interest rate or foreign exchange movements by eliminating or reducing exposures, by establishing offsetting or risk-mitigating positions.

**Impaired loans**
Impaired loans are loans where, in management's opinion, there is no longer reasonable assurance of the timely collection of the full amount of principal and interest. In addition, any loan that is $500 or more in arrears for 90 days is classified as impaired unless the loan is sufficiently secured.

**Interest expense**
An interest expense is an expense to the corporation incurred on debt.

**Interest income**
Interest income is income earned on loans receivable, cash and investments.

**Interest rate risk**
Interest rate risk is the risk that a change in interest rates adversely impacts the corporation's net interest income and economic value.

**Leverage**
Leverage refers to the relationship between total liabilities and the equity of a business.

**Market value of portfolio equity (MVPE)**
MVPE is the net present value of assets less liabilities. It is used to measure the sensitivity of the corporation's net economic worth to changes in interest rates.

**Mezzanine financing**
Mezzanine financing is a hybrid of debt and equity financing that is typically used to finance the expansion of existing companies. Mezzanine financing is often debt capital that gives the lender the right to convert to an ownership equity interest if the loan is not paid off in time and in full.

**Net disbursements**
Net disbursements represent the release of funds against approved loans. They exclude the refinancing of existing FCC loans.

**Net interest income**
Net interest income is the difference between the interest earned on assets, such as loans and securities, and the interest expense on borrowings.

**Other comprehensive income**
Other comprehensive income represents gains and losses due to changes in fair value that are recorded outside of net income in a section of shareholder's equity called accumulated other comprehensive income (AOCI).

**Prepayments**
Prepayments are unscheduled principal payments prior to interest term maturity.

**Primary production**
Primary production refers to agriculture operations that produce raw commodities such as grains and oilseeds, cattle, hogs, poultry, sheep and dairy as well as fruit, vegetables and alternative livestock. Primary production also includes vineyards, greenhouses, forestry (cultivation, growing and harvesting of trees), aquaculture (growing of ocean and inland fish) and part-time farming.

**Provision for credit losses**
A provision for credit losses is charged to the income statement by an amount necessary to bring the allowance for credit losses to a level determined appropriate by management.

**Return on assets (ROA)**
ROA is the net income attributable to the shareholder of the parent entity expressed as a percentage of total average assets.

**Return on equity (ROE)**
ROE is the net income attributable to the shareholder of the parent entity expressed as a percentage of total average equity, excluding accumulated other comprehensive income.

**Risk-weighted assets**
Assets weighted according to relative risk (0 to 150%) as prescribed by the regulatory capital requirements issued by the Office of the Superintendent of Financial Institutions (OSFI).

**Sector**
A sector is a specific type of agricultural operation (dairy, beef, oilseed and grain, agribusiness, etc.).

**Structured entity**
Structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity and the relevant activities are directed by means of contractual arrangements.

**Subordinated debt**
Subordinated debt is a loan that ranks below other loans with respect to claims on assets or earnings in the case of default. Subordinated debt is often unsecured.

**Suppliers and processors**
Suppliers and processors sell to, buy from and otherwise serve primary producers. These include equipment manufacturers and dealers, input providers, wholesalers, marketing firms and processors.

**Total capital**
Total capital consists of contributed surplus, retained earnings and accumulated other comprehensive income and are net of regulatory adjustments. Regulatory adjustments are prescribed by OSFI.

**Total capital ratio**
The total capital ratio is the level of total capital held in relation to the risks taken on by the institution, and is expressed as total capital as a percentage of total risk-weighted assets.

## 7.4 Office locations (as of December 31, 2015)

British Columbia
Abbotsford, Dawson Creek, Duncan, Kelowna, Surrey

Alberta
Barrhead, Brooks, Calgary, Camrose, Drumheller, Edmonton, Falher, Grande Prairie, High River (S), La Crete, Leduc, Lethbridge, Lloydminster, Medicine Hat, Olds, Red Deer, Stettler (S), Strathmore (S), Vegreville, Vermilion, Westlock

Saskatchewan
Assiniboia, Carlyle, Humboldt, Kindersley, Meadow Lake (S), Moose Jaw, Moosomin (S), North Battleford, Prince Albert, Regina, Rosetown, Saskatoon, Swift Current, Tisdale, Wadena (S), Weyburn, Yorkton

Manitoba
Arborg, Brandon, Carman, Dauphin, Killarney (S), Morden, Neepawa, Portage la Prairie, Shoal Lake (S), Steinbach, Stonewall (S), Swan River, Virden, Winnipeg

Ontario
Casselman, Chatham, Clinton, Essex, Frankford, Guelph, Kanata, Kingston, Lindsay, Listowel, London, Mississauga, New Liskeard, Owen Sound, Simcoe, Stratford, Thornton, Vineland, Walkerton, Woodstock, Wyoming

Quebec
Alma, Blainville, Drummondville, Gatineau (S), Granby, Joliette, Lévis, Rivière-du-Loup, Salaberry-de-Valleyfield, Sherbrooke, Ste-Marie, St-Hyacinthe, St-Jean-sur-Richelieu, Trois-Rivières, Victoriaville

New Brunswick
Moncton, Woodstock

Newfoundland and Labrador
Mount Pearl

Nova Scotia
Kentville, Truro

Prince Edward Island
Charlottetown

(S) Satellite office – limited hours

Corporate Office
1800 Hamilton Street, P.O. Box 4320
Regina SK S4P 4L3
Telephone: 306-780-8100
Fax: 306-780-5167

FCC Management Software
1800 Hamilton Street, P.O. Box 4320
Regina SK S4P 4L3
Toll-free: 1-800-667-7893
Telephone: 306-721-7949
Fax: 306-721-1981

FCC Ventures
1800 Hamilton Street, P.O. Box 4320
Regina SK S4P 4L3
Telephone: 306-780-2728
Fax: 306-780-8757

Government and Stakeholder Relations
Tower 7 – Floor 10 – Room 319
1341 Baseline Road
Ottawa ON K1A 0C5
Telephone: 613-773-2940

fcc.ca
csc@fcc-fac.ca

Customer toll-free number
Extended hours: 1-888-332-3301

FCC's venture capital investments are managed by:

AVRIO CAPITAL

avriocapital.com
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## 7.5 Contacts

If you require more information about FCC's corporate plan or want to provide feedback, contact:

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